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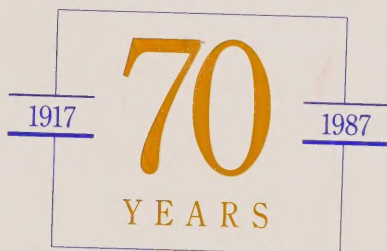
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1986 ANNUAL REPORT

274

Goverance
Publication

STABILITY SERVICE SECURITY



Teachers' Superannuation Commission
Commission du régime de retraite des enseignants

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Chairman's Report

The fiscal year 1986 proved to be yet another year in which the Commission implemented new benefits under the Act and embarked upon new services to contributors and pensioners.

Early in the year, the Treasurer announced that teachers would have greater opportunities to retire, by means of an early retirement incentive program, during the period leading up to September 1989. In essence, teachers retiring with at least 10 years service and 55 years of age may retire without reduction for the years they are short of the 90 factor or age sixty-five.

The level of activity at the Commission surrounding this one feature alone has been unprecedented. Mail and phone calls are coming in at record levels.

To meet these and other demands to communicate with contributors and pensioners, the Commission entered into a three year agreement with W.F. Morneau Associates, to provide communication services during the 1986-1989 period. The agreement will also provide a fully functional Communications Department within the Commission by the middle of 1989.

In addition, the Commission laid the plans to increase the number of benefits counsellors from 7 to 12, effective early 1987. Given the complexities of the Teachers' Superannuation Act, 1983 and the number and variety of inquiries that counsellors must deal with, just the plans for training the new counsellors, much less identifying who they would be, took the fall months of 1986.

As the year ended, the Ontario Government made yet another announcement that will have dramatic impact on the Teachers' Superannuation Act, 1983 and the operation of the Commission. The Government introduced the Pension Benefits Act, 1986, giving it first reading in December 1986.

The Commission is still assessing the full impact of the Pension Benefits Act, 1986 and, of course, until it is proclaimed, it is still subject to potential amendment. Nevertheless, initial analysis would indicate that contributors will be better served by the impact of the new Pension Benefits Act, 1986, by way of earlier vesting, higher interest on any refunds, transfer options and so on.

I would like to thank the staff of the Commission for their efforts to understand and implement the changes presently unfolding in the pension industry. As the Commission enters its 70th year I would commit ourselves to sustaining these efforts, to providing the services that will always allow contributors and pensioners to fully realize the many benefits of the Teachers' Superannuation Act.

C. Peter Honey



C. Peter Honey

Chairman

*(Appointed as Commissioner by the Minister,
elected as Chairman by fellow appointees.)*

*The Past:***STABILITY**

Seventy years ago teachers in Ontario petitioned Sir William Hearst's government at Queen's Park, urging to establish a superannuation plan for teachers. On April 12, 1917, the Teachers' and Inspectors' Superannuation Act was passed. The new pension plan was called the Teachers' Superannuation Fund and it guaranteed a pension to every teacher in Ontario.

The first seventy years of the Fund, your pension plan, have been marked by growth and achievement. With over \$10 billion in total assets and almost 170,000 contributors and pensioners, the Teachers' Superannuation Fund is today one of the largest pension plans in Canada. And over the years the addition of improved benefits has also made it one of the most progressive.

What is remarkable about that growth is the way that it has occurred — gradually, carefully. From the



David Kennedy

Director

School Business & Finance Branch

Ministry of Education

(Appointed by the Minister)

inning the Fund has been built on a solid, stable foundation, Province of Ontario debentures. Sound, prudent financial management and 70 consecutive years of growth have strengthened that foundation. Throughout, the Fund has upheld its commitment to make sure that retirement is a period of financial security for teachers in Ontario. Now and in the future. In 1987 the Teachers' Superannuation Fund is one of the strongest pension plans in Canada.

Throughout its long history the Fund has been a leader in improving retirement benefits for its subscribers. The first small step occurred in 1927 when the maximum pension was raised — from \$1,000 to \$1,250 a year! A survivor's benefit was introduced in 1932 and in 1945 it became possible for a teacher to receive credit in the Fund for service in another province.

Two of the most important improvements were added in the last 12 years — an automatic cost of living adjustment in 1975 and the use of the best 5 year average salary to calculate a pension, in 1984.

Most of all, what distinguishes the Fund as it celebrates its seventieth anniversary is its tradition. It is one that started in 1917 and grew strongly, through seventy years of history. And it is one that will continue to survive and flourish in the years ahead. That tradition is the purpose of the Teachers' Superannuation Fund — to make certain that retirement is a period of financial security for teachers in Ontario.



Helen Salisbury
(Appointed by the Minister)



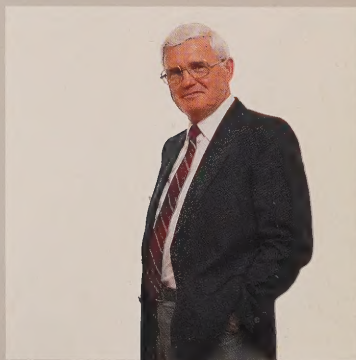
Ronald E. Poste
Ontario Public
School Teachers' Federation
(Elected by the Teachers)

*The Present:***SERVICE**

Over the years the Fund has grown. Benefits have been added, options increased, policies have changed. The Teachers' Superannuation Fund has evolved and today it is more than just a pension plan. It is a sure and sound way of investing in your future.

As the administrator of the Fund since the early 1980s, the Teachers' Superannuation Commission has played a vital role in that growth. Over the years it has become actively involved with you, the contributor, helping make you aware of how a changing Fund can meet you and your future financial requirements.

Today the Teachers' Superannuation Commission is a dynamic, responsive service organization that provides a host of helpful services to you, the contributor. From counselling services to pension estimates to informing you about new, enhanced benefits, our responsibility is to respond to your needs as you begin to invest in your future.



Peter W. Ferren

Director of Education

Welland County R.C.S.S. Board

(Appointed by the Minister)

And to help you with your planning we too are growing. Last year, in a major initiative that will streamline and improve our operations, we established a Communications Department. The move is a positive one and was made to help contributors keep pace with the continual information explosion that has occurred in the last 7 years. In the years ahead, as the Fund continues to change, the Communications Department will be helping to interpret those changes, to understand how they will affect you and your plans for your future.

Yet despite our growth, the Commission's capacity to listen and respond to the personal needs of individual contributors is still as strong and undiminished as ever. From the beginning that has been the very essence of the Teachers' Superannuation Commission. Today, both our counselling services and appeals process amply and effectively demonstrate how the Commission remains a sensitive, caring service organization.

More than anything, the Commission's capacity to listen and its readiness to expand its services, exemplify its commitment to helping contributors. Today that commitment is our purpose — to respond to the needs of contributors to the Teachers' Superannuation Fund. That too is a tradition, and like the Fund itself, it will continue to grow in the years ahead.



Bob Scott
Ontario English Catholic
Teachers' Association
(Elected by the Teachers)



Josephine F. Stemerowicz
Federation of Women Teachers'
Association of Ontario
(Elected by the Teachers)

SECURITY

In our lifetime the greatest promise of a successful pension fund is its ability to guarantee and provide our financial security when we retire. As the administrator of the Teachers' Superannuation Fund, the Teachers' Superannuation Commission has been delivering on that promise to contributors since 1917.

The key to that success is a responsible investment strategy. It is one that has chosen patience over risk, reliability over uncertainty, and sure and steady growth for the future instead of quick, immediate return for the present. Its goal is security — for today and a lifetime of tomorrows.

Each year since 1917, the Fund has been sustained by contributions from teachers and the Province of Ontario. And each year since those early days, the Commission has invested almost all of those contributions in Province of Ontario debentures — whose consistent yield and predictable performance guarantee financial security.



Sal Pengelley
Incoming Chairman
Ontario Secondary
School Teachers' Federation
(Elected by the Teachers)

That investment strategy has remained unchanged for the years. Since 1917, the Teachers' Superannuation Fund has gained a reputation for being one of the largest, most secure pension funds in all of Canada. And this is why, in 1987, a retired teacher in Ontario receives one of the best, most attractive pensions of any in the country.

Yet times change and in the years ahead, as the Teachers' Superannuation Fund continues to grow, so will its investment options. To evaluate those opportunities, and to explore the possibilities of diversifying the Fund's portfolio, the provincial government recently established a Task Force on Pension Investments. As the Administrator of the Fund, the Commission will be preparing its own submission to that Task Force. In it, the Commission will express the keen desire to be directly involved in the development of any program to alter the present investment practice.

Over the first seventy years the Fund has grown dramatically and the Teachers' Superannuation Commission is pleased to have played an important part in that growth. Over the next seventy years, we look forward to playing an even more vital role in the financial security of contributors to the Fund — to continuing and strengthening our tradition of stability, service and security.



Shirley Bouey
*Director, Intergovernmental Finance
 Policy Branch
 Ministry of Treasury & Economics
 (Appointed by the Minister)*



Leon Vigneault
*L'Associations des enseignants
 franco-ontariens
 (Elected by the Teachers)*

Director's Report

During 1986, the number of persons who received a pension under the Teachers' Superannuation Act, 1983, rose to 29,237, up from 27,243 in 1985. As described in the Chairman's Report, the early retirement incentive program is now in place and it is anticipated that the number of retirees will continue to grow rapidly.

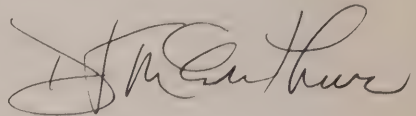
Not only are teachers planning for and actually retiring in greater numbers, they are also purchasing optional credit in the Fund at continued high volumes. In 1985, \$5,281,000 was contributed by teachers to purchase optional credit, whereas in 1986, \$6,203,000 was contributed for the same purpose.

Long term investments (i.e. 20 to 25 years) placed in 1986 amounted to \$1,280,000,000 and attracted a weighted average yield of 10.67%. The Fund overall provided a yield of 10.7% in 1986. Readers are reminded that the interest rates on the long term investments placed by the Fund are determined by the open market, as the market values Ontario Government securities and those backed by the Ontario Government.

Cash flow data reveals that by 1994, the annual benefits paid will exceed the annual employee contributions alone. Further, by 2004, the benefits paid will exceed both the employee and the provincial government contributions. However, even 50 year cash flow projections never show the benefits exceeding the total of employee and provincial contributions, plus interest.

The Fund is sound. It is currently in a surplus position and will be able to pay all the current benefits to all the current contributors and pensioners.

In this, the 70th year of the Fund, the staff of the Commission welcomes the challenge presently extending to the pension industry and is committed to keeping the Teachers' Superannuation Commission at the forefront of pension stability, service and security.



D.F. McArthur
Director



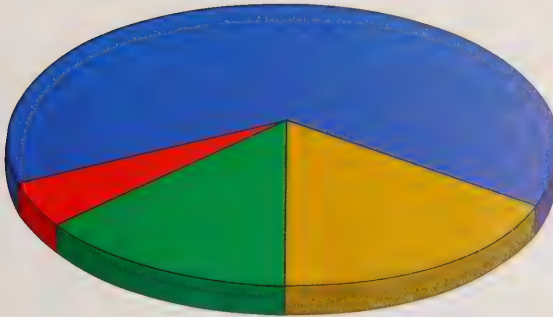
D.F. McArthur
Director

REVENUE AND EXPENDITURE

Year ended December 31, 1986

Revenue

(000's)



Other



Interest

Matching
Contributions

Contributions
by Contributors

Transfers in
Repayments
of Refunds

Total
Revenue

\$1,032,392 — 63.74%

\$299,484 — 18.49%

\$278,219 — 17.18%

\$3,763 — .23%

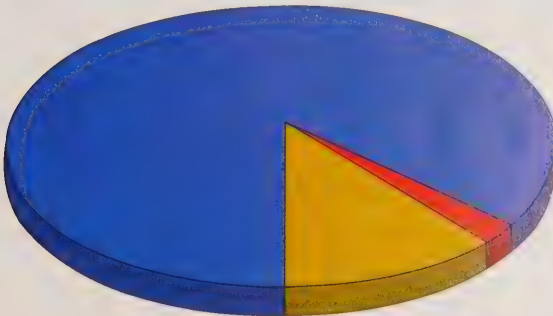
\$5,719 — .36%

\$9,482 — .59%

\$1,619,577 — 100%

Expenditure

(000's)



Other



Excess of Revenue
Over Expenditure

Net Pension
Expenditure

Administration
Expenditures
Refunds
Transfers out

Total
Revenue

\$1,349,521 — 83.33%

\$242,339 — 14.96%

\$6,965 — .43%

\$8,471 — .52%

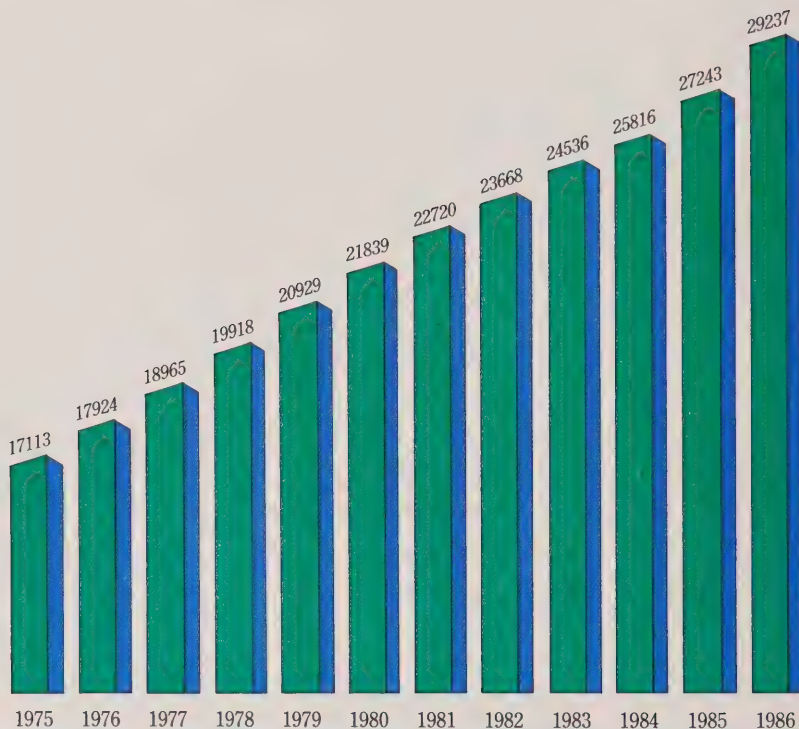
\$12,281 — .76%

\$27,717 — 1.71%

\$1,619,577 — 100%

PENSION REGISTER

Year ended December 31, 1986



Number on pension as at:

31 December 1986

31 December 1985

Service

Unreduced

13,248

12,428

Reduced

10,730

9,779

Disability

Total

832

830

Partial

831

838

Survivor

3,596

3,368

29,237

27,243

Teachers' Superannuation Fund

STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS

as at December 31, 1986

(in thousands)

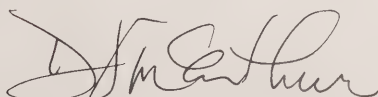
	ASSETS	
	1986	1985
Investments		
Province of Ontario debentures	\$ 9,469,100	\$8,189,100
Short term	79,098	69,576
	<u>9,548,198</u>	<u>8,258,676</u>
Receivable from Province of Ontario		
Matching contributions	249,895	211,579
Interest on matching contributions	45,389	66,864
	<u>295,284</u>	<u>278,443</u>
Accrued interest receivable	320,463	279,271
Cash	17,513	17,416
Total assets	<u>10,181,458</u>	<u>8,833,806</u>
	LIABILITIES	
Accounts payable and accrued liabilities	6,872	5,250
Payable to school boards, net	707	486
Payable to Superannuation Adjustment Fund	299	4,011
Total liabilities	<u>7,878</u>	<u>9,747</u>
Net assets available for benefits (note 3)	<u>\$10,173,580</u>	<u>\$8,824,059</u>

Approved by

Chairman



Director



Teachers' Superannuation Fund

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 1986

(in thousands)

	1986	1985
Interest income		
Investments	\$ 1,022,049	\$ 883,573
Payments for additional credit in the Fund and board contributions	10,343	10,709
	<u>1,032,392</u>	<u>894,282</u>
Contributions		
By contributors employed in education by		
School boards	266,870	250,577
Designated private schools or organizations	5,146	5,336
For credit in the Fund	6,203	5,281
Matching contributions		
Province of Ontario including interest of \$44,443 (\$46,638 in 1985)	294,338	258,217
Designated private schools or organizations	5,146	5,336
Payments by Province of Ontario re unfunded liability (note 3)		39,098
Repayments of refunds and interest	5,719	4,687
Transfers from other pension funds including interest	3,763	3,194
	<u>587,185</u>	<u>571,726</u>
Total revenue	<u>1,619,577</u>	<u>1,466,008</u>
Benefits paid	<u>397,058</u>	<u>339,518</u>
Less recovery from:		
Province of Ontario		
Minimum pension and escalation subsidies for certain contributors	12,952	13,686
Escalation of pensions of contributors who did not contribute to Superannuation Adjustment Fund	91,486	82,612
Superannuation Adjustment Fund	50,281	40,741
	<u>154,719</u>	<u>137,039</u>
Net benefits paid	<u>242,339</u>	<u>202,479</u>
Refunds and transfers		
Refunds of contributions and interest	8,471	9,360
Transfers to other pension plans including interest	12,281	3,231
	<u>20,752</u>	<u>12,591</u>
Administration expenditures	6,965	5,049
Total expenditures	<u>270,056</u>	<u>220,119</u>
Net increase in net assets available for benefits	1,349,521	1,245,889
Net assets available for benefits at beginning of year	8,824,059	7,578,170
Net assets available for benefits at end of year (note 3)	<u>\$10,173,580</u>	<u>\$8,824,059</u>

Teachers' Superannuation Fund

STATEMENT OF LONG TERM INVESTMENTS

Province of Ontario debentures

as at December 31, 1986

(in thousands)

Maturity Date	Interest Rate (%)	1986		1985	
		Principal	%	Principal	%
1987	6.00 — 6.99	\$ 176,000	1.86	\$ 176,000	2.15
1992-1994	6.00 — 6.99	454,500	4.80	454,500	5.55
	8.00 — 8.99	195,000	2.06	195,000	2.38
		649,500	6.86	649,500	7.93
1995-1997	7.00 — 7.99	110,000	1.16	110,000	1.35
	8.00 — 8.99	172,000	1.82	172,000	2.10
	10.00 — 10.99	197,500	2.08	197,500	2.41
		479,500	5.06	479,500	5.86
1998-2000	7.00 — 7.99	9,500	0.10	9,500	0.12
	8.00 — 8.99	286,100	3.02	286,100	3.49
	9.00 — 9.99	1,026,000	10.84	1,026,000	12.53
	11.00 — 11.99	273,000	2.88	273,000	3.33
		1,594,600	16.84	1,594,600	19.47
2001-2003	9.00 — 9.99	488,000	5.15	488,000	5.96
	10.00 — 10.99	334,500	3.53	334,500	4.08
	11.00 — 11.99	296,000	3.13	296,000	3.61
	12.00 — 12.99	230,000	2.43	230,000	2.81
	13.00 — 13.99	315,000	3.33	315,000	3.85
		1,663,500	17.57	1,663,500	20.31
2004-2006	10.00 — 10.99	465,000	4.91		
	11.00 — 11.99	490,000	5.17	490,000	5.98
	12.00 — 12.99	1,396,000	14.74	1,396,000	17.05
	13.00 — 13.99	460,000	4.86	460,000	5.62
	14.00 — 14.99	335,000	3.54	335,000	4.09
		3,146,000	33.22	2,681,000	32.74
2007-2009	10.00 — 10.99	305,000	3.22		
	11.00 — 11.99	510,000	5.39		
	15.00 — 15.99	945,000	9.98	945,000	11.54
		1,760,000	18.59	945,000	11.54
		\$9,469,100	100.00	\$8,189,100	100.00

Teachers' Superannuation Fund

STATEMENT OF ADMINISTRATION EXPENDITURES

for the year ended December 31, 1986

(In thousands)

	1986	1985
Salaries and benefits	\$3,971	\$3,429
Purchase of computer equipment	546	
Printing and stationery	269	268
Data processing services	255	209
Postage, distribution and advertising	191	159
Computerized accounting project	184	183
Equipment rental	158	92
Communications consulting services	121	37
Office rental	121	
Telecommunications	121	90
Legal fees	114	35
Repairs and maintenance	113	104
Actuarial services	100	62
Publications and external communications	98	
Commissioners' costs	83	67
Equipment purchases	73	52
Consulting services	68	10
Audit fees	60	47
Space consulting fees	55	
Bank services	54	43
Utilities	44	42
Training and development	42	23
Translation services	36	24
Travel	35	35
Other	16	13
Insurance	13	8
Vehicle purchase	12	
Medical fees	12	17
	<u>\$6,965</u>	<u>\$5,049</u>

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1986

1. DESCRIPTION OF THE PLAN

The following brief description of the Teachers' Superannuation pension plan (the Plan) is provided for general purposes only. For more complete information reference should be made to the Teachers' Superannuation Act, 1983 (the Act).

(a) General

The Plan is a contributory defined benefit pension plan of the Province of Ontario and is mandatory for persons who satisfy eligibility requirements provided in the Act. Under this Plan contributions are made by persons employed in education (contributors), certain boards and organizations and the Province of Ontario.

(b) Funding Policy

The Pension Benefits Act of Ontario requires that the Ontario Government, acting as the Plan sponsor, must fund the benefits determined under the Plan. The determination of the value of these benefits is made on the basis of a triennial actuarial valuation.

(c) Service Pensions

A service pension is available based on credit in the Fund, best five year average salary and age of the contributor. A 90 factor provides an unreduced pension at any age. An early retirement service pension is available from age 55. Reduction factors which generally apply for early retirement pensions have been suspended for retirements in the period June 1986 to August 1989 inclusive.

(d) Disability Pensions

A disability pension is available at any age with a minimum of 10 years credit. A total disability pension is paid where the contributor is determined by the Teachers' Superannuation Commission (the Commission) to be incapable of further earning a livelihood. A partial disability pension is paid where the contributor is determined by the Commission to be totally disabled from further employment in education only.

(e) Survivor Pensions

A survivor pension is paid to a spouse, as defined in the Family Law Act, a dependant child, or a named dependant of a contributor who has a minimum of 10 years credit.

Teachers' Superannuation Fund
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 1986

1. DESCRIPTION OF THE PLAN (Continued)

(f) Death Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a contributor where no survivor pension is paid.

(g) Withdrawal Refunds

Upon application and subject to the lock-in provisions, withdrawal refunds, with interest on the contributions, are payable where a contributor ceases to be employed in education.

(h) Income Taxes

The Teachers' Superannuation Fund (the Fund) is a Registered Pension Trust as defined by the Income Tax Act and therefore is not subject to income tax.

(i) Superannuation Adjustment Fund

The Superannuation Adjustment Fund (the S.A.F.) is a contributory fund set up under the Superannuation Adjustment Benefits Act to provide cost-of-living escalation to pensioners under the Teachers' Superannuation Act. The Teachers' Superannuation Fund acts as an agent of the S.A.F. in the collection of contributions and the payment of benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The statements present the aggregate financial position of the Fund and have been prepared in accordance with generally accepted accounting principles except as indicated under the basis of accounting. They are prepared to assist plan participants in reviewing the activities of the Fund for the fiscal period.

The financial statements do not purport to reflect the financial status of the plan if terminated on the valuation date nor do they reflect the funding requirements of the Plan.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1986

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting

i) Revenue

Contributions from contributors as well as matching contributions from designated private schools or organizations are recorded in the year in which they are received.

The matching contributions from the Province are recorded as an amount equal to the contributions of the contributors including payments for credit in the Fund where applicable, for the year preceding the current year. Interest is recorded on this amount for the nineteen month period ended December 31 of the current year in accordance with Section 6 of the Teachers' Superannuation Act, 1983.

Special payments from the Province are recorded in the year in which they are received.

ii) Expenditures

Capital expenditures, including expenditures for real property, are reflected as administration expenditures in the statement of changes in net assets available for benefits in accordance with the Act.

No provision is made for future benefits to be paid to contributors or for refunds to eligible former contributors who have ceased to be employed in education and have not elected to withdraw their contributions. However, provisions for such amounts are included in the determination of the actuarial liabilities.

iii) Investments

Province of Ontario debentures

Maturing debentures and other surplus funds will be used to purchase Province of Ontario debentures in accordance with Section 72 of the Act. Province of Ontario debentures are stated at cost. These investments are not valued at their current market value as they are required to be held to the maturity of the debenture. Accordingly, increases or decreases in current value will not be realized.

Short term

Short term investments are stated at cost which approximates market value.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1986

3. NET ASSETS AVAILABLE FOR BENEFITS

The adequacy of the net assets available for benefits is determined by an actuarial valuation at least once each three years. The latest actuarial valuation filed with the Pension Commission of Ontario was as at December 31, 1984.

Changes to the benefit structure which were announced in February 1986 have not been incorporated in the information set out in this note. However, these changes will have an impact on the adequacy of the net assets available for benefits.

The actuarial liabilities of the plan are determined by applying actuarial assumptions to project the amount and timing of future benefits and refunds together with teacher and matching contributions, and then discounting those projected benefits and contributions to reflect the time value of money between the valuation date and the expected dates of payment. The significant actuarial assumptions used were:

- i) investment earnings and general salary increase rates:

	Assumed Interest Rate on Debenture Placements in the year	General Salary Increase Rate
	%	%
1985	12.1	5.0
1986	10.4	5.0
1987	8.7	5.5
1988 and later	7.0	6.0

- ii) mortality rates are based on actuarial studies of recent experience among the active and retired contributors of the Fund.

- iii) the assigned probabilities of eligible contributors at indicated ages assumed to retire in the next year with an unreduced service pension:

Age	%
	varying from
55-63	23-28
64	40
65	100

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1986

3. NET ASSETS AVAILABLE FOR BENEFITS (continued)

iv) withdrawal rates are based on actuarial studies of the recent experience among the active contributors of the Fund.

The actuarial valuation at December 31, 1984 revealed the following:

	(in thousands)
Net assets available for benefits at December 31, 1984.	\$ 7,578,000
Adjustment to reflect yield on invested assets equivalent to valuation interest assumption	3,178,000
Contributions receivable from Province	267,000
Other assets	60,000
Present value of expected excess interest on future debentures	1,249,000
Actuarial assets	12,332,000
Actuarial liabilities	11,639,000
Surplus at December 31, 1984	<u>\$ 693,000</u>

In accordance with the Pension Benefits Act of Ontario and the 1984 valuation report, special payments are not required.

4. CONTINGENCY

A claim against the Fund exists on account of corrective steps taken in September 1986 in order to conform to a legal interpretation of the Act. These steps have resulted in the reduction of approximately 1500 pensions on a prospective basis. The outcome of this claim cannot be reasonably determined at this time. Accordingly, no provision has been made in the financial statements. Settlement, if any, would be accounted for on a prospective basis.

5. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to reflect the financial statement presentation adopted for 1986.



OFFICE OF THE PROVINCIAL AUDITOR

Box 105, 15th Floor, 20 Dundas St. West
Toronto, Ontario M5G 2C2
(416) 974-9866

To the Members of the Teachers' Superannuation Commission
and to the Treasurer of Ontario.

I have examined the statements of net assets available for benefits and long term investments of the Teachers' Superannuation Fund as at December 31, 1986, and the statements of changes in net assets available for benefits and administration expenditures for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accounting policies set out in the Summary of Significant Accounting Policies (note 2) to the financial statements applied on a basis consistent with that of the preceding year.

A report on the audit has been made to the Commission and to the Treasurer of Ontario.

A handwritten signature in dark ink, appearing to read "D.F. Archer".

Toronto, Ontario
February 20, 1987.

D.F. Archer, F.C.A.,
Provincial Auditor.

SUMMARY OF SELECTED FINANCIAL DATA

as at December 31, 1986

(in thousands)

	1986	1985	1984	1983	1982
Investments, at cost	9,548,198	8,258,676	7,110,619	6,088,499	5,271,100
Net assets available for benefits	10,173,580	8,824,059	7,578,170	6,489,094	5,600,381
Interest earned on investments	1,022,049	883,573	745,447	624,462	503,250
Contributions received from					
— Contributors & designated employers	283,365	266,530	246,444	202,577	183,220
— Province of Ontario					
— Matching contributions	294,338	258,217	230,282	190,302	168,042
	577,703	524,747	476,726	392,879	351,262
— Special payments		39,098	39,098	39,098	119,827
— Minimum pensions	12,952	13,686	14,279	15,158	15,987
— Escalations, certain contributors (a)	91,486	82,612	73,696	64,429	55,776
	104,438	135,396	127,073	118,685	191,584
Payments to contributors					
— Pensions (b)	397,058	339,518	291,624	253,485	224,838
— Recovery from SAF	(50,281)	(40,741)	(31,326)	(22,723)	—
— Contributions, plus interest refunded	8,471	9,360	6,826	7,290	9,604
Refunds repaid	5,719	4,687	3,122	1,291	—
Transfers from (to) other pension funds	(8,518)	(37)	60	(173)	—
Administration expenditures					
— Amount	6,965	5,049	4,387	4,074	—
— Percentage increase over 1974	623%	452%	393%	365%	—
Revenues less expenditures					
— Amount	1,349,521	1,245,889	1,089,076	888,713	—
— Percentage increase over 1974	606%	560%	490%	400%	—
Actuarial liability (surplus)	(693,000)	(693,000)	(693,000)	433,000	12,000
Rate of return on investments	10.7%	10.7%	10.5%	10.3%	—

(a) Payments awarded to those contributors who had not contributed to the Superannuation Adjustment Fund (SAF)

(b) Includes recoveries from the SAF

Teachers' Superannuation Commission

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

as at December 31, 1986

(in thousands)

	1986	1985	1984	1983	1982
Personnel services, including employee benefits					
— salaries	\$3,475	\$2,969	\$2,696	\$2,479	\$2,275
— benefits	496	460	420	397	305
— training and development	42	23			
	<u>4,013</u>	<u>3,452</u>	<u>3,116</u>	<u>2,876</u>	<u>2,580</u>
Transportation and Communications					
— travel expenses	35	35	32	60	52
— postage	191	159	122	115	85
— publications & external communications	98				
Purchase of Services					
— actuarial	100	62	62	101	89
— audit	60	47	34	46	35
— medical	12	17	12	12	14
— legal	114	35	20	16	23
— communications consulting	121	37			
— other professional services	123	10	20	14	16
— translation	36	24	21	11	14
— maintenance and repairs	113	104	67	65	72
— utilities	165	132	127	82	87
— office rental	121				
— rental, data processing/office equipment, other data centre services	413	301	378	381	335
— insurance	13	8	4	4	4
— commissioners' costs	83	67	67	32	19
— computerized accounting project	184	183			
Material and Supplies					
— printing and stationery	269	268	155	141	136
— office furniture, equipment and vehicle	85	52	94	43	88
— computer equipment purchase	546				
Unclassified	70	56	56	75	61
Total	<u>\$6,965</u>	<u>\$5,049</u>	<u>\$4,387</u>	<u>\$4,074</u>	<u>\$3,710</u>

Teachers' Superannuation Commission
SUMMARY OF SELECTED DATA
For the Calendar Year

	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
Contributors (active)					
— Female	(a)	85,304	83,435	81,536	80,796
— Male	(a)	53,316	53,197	53,073	52,960
— Total		<u>138,620</u>	<u>136,632</u>	<u>134,609</u>	<u>133,756</u>
Contributors (active)					
— Full-time	(a)	109,721	107,453	106,871	106,844
— Part-time	(a)	9,270	9,523	9,136	8,349
— Casual	(a)	19,629	19,656	18,602	18,563
— Total		<u>138,620</u>	<u>136,632</u>	<u>134,609</u>	<u>133,756</u>
Pensioners by type of pension					
— Unreduced	13,248	12,428	11,742	11,210	10,818
— Reduced	10,730	9,779	9,278	8,947	8,697
— Disability					
Full	832	830	809	803	787
Partial	831	838	813	791	772
— Survivor	3,596	3,368	3,174	2,785	2,594
— Total	<u>29,237</u>	<u>27,243</u>	<u>25,816</u>	<u>24,536</u>	<u>23,668</u>

a) Not available

ECKLER PARTNERS LTD.

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R. KIRK BAILEY, A.S.A.
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789 DON MILLS ROAD
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M3C 1T8
TELEPHONE (416) 429-3330

AFFILIATED WITH BACON & WOODROW IN THE U.K.
AND WITH MILLIMAN & ROBERTSON IN THE U.S.A.

March 21, 1986

ACTUARIES' OPINION THE TEACHERS' SUPERANNUATION FUND

The Teachers' Superannuation Fund is financed by:

- i) contributions by teachers at the rate specified in the Teachers' Superannuation Act;
- ii) contributions by the Province and other employers that match the teachers' contributions; and
- iii) special payments by the Province in amounts which, when added to the teacher and matching contributions, are sufficient to finance the benefits payable from the Fund and meet the funding requirements under the Ontario Pension Benefits Act.

We have made an actuarial valuation of the Fund as of December 31, 1984. On that date, the teacher and matching contributions were at the rate of 6.9% of salary less 1.8% of the part of a teacher's salary between the Year's Basic Exemption and the Year's Maximum Pensionable Earnings under the Canada Pension Plan. We determined in the actuarial valuation that the Province was not required to make any special payments to the Fund after December 31, 1984.

In our opinion, the actuarial value of the assets of the Fund on December 31, 1984 and of the teacher contributions and matching contributions by the Province exceeded the actuarial value of all benefit obligations under the Teachers' Superannuation Act as it existed on December 31, 1984 with respect to both the past and future service of all active, inactive and retired teachers who began teaching at any date before December 31, 1984. Notwithstanding the foregoing opinion, emerging experience differing from the assumptions that we used will result in gains or losses that will be revealed in future valuations.

The above results do not reflect the amendment to the provisions of the Teachers' Superannuation Act that was made in February 1986. In addition, they do not take account of the escalation benefits and the contributions by teachers, the Province and designated employers that are provided under the Superannuation Adjustment Benefits Act.

In our opinion, the data on which the above valuation results are based are sufficient and reliable for the purpose of the valuation, the assumptions used are adequate and appropriate for the purpose of the valuation, and the methods employed are consistent with sound actuarial principles.

M. D. R. Brown

M. David R. Brown, F.C.I.A.

P. F. Flanagan

Patrick F. Flanagan, F.C.I.A.

WORKSHOP SCHEDULE

1987-1989

The workshops sponsored by the affiliates of the Ontario Teachers' Federation on retirement matters will be held during the school years 1987-1988 and 1988-1989 at the locations listed below. Anyone may submit a request to the local affiliate for a personal interview with a representative of the Teachers' Superannuation Commission at that time.

1987-88			1988-89		
October	2- 3	Kingston	September 30-October 1	St. Catharines	
October	16-17	Niagara Falls	October	14-15	Goderich
October	30-31	Cornwall	November	4- 5	Elliot Lake
November	13-14	Burlington	November	18-19	Chatham
November	27-28	Sudbury	December	2- 3	Hamilton
January	29-30	Metro-Etobicoke York Borough	January	27-28	Metro-Toronto
February	12-13	Brantford	February	10-11	Ottawa
February	26-27	Oshawa	February	24-25	London
March	25-26	Sault Ste. Marie	March	31-April 1	Belleville
April	15-16	York County	April	21-22	Kapuskasing
May	13-14	North Bay	May	12-13	Thunder Bay

Membership of the Commission

During 1986, Mr. Bob Scott resigned from the Commission after 10 years of service. He was replaced by Mr. George Saranchuk starting January 1987. Also during 1986, Messrs. Frank Kidd, Chairman and John Ilkiw resigned from the Commission. They were replaced by Mr. David Kennedy and Ms. Kathy Bouey, respectively.

Acknowledgements

The Commission acknowledges the advice and assistance which has been received throughout the year from its advisors.

Mr. Roger Barton — Solicitor
Eckler Partners Ltd. — Actuary
Thorne Ernst & Whinney — Chartered
Accountants
Dr. B.W. Vale — Medical Referee

Communications

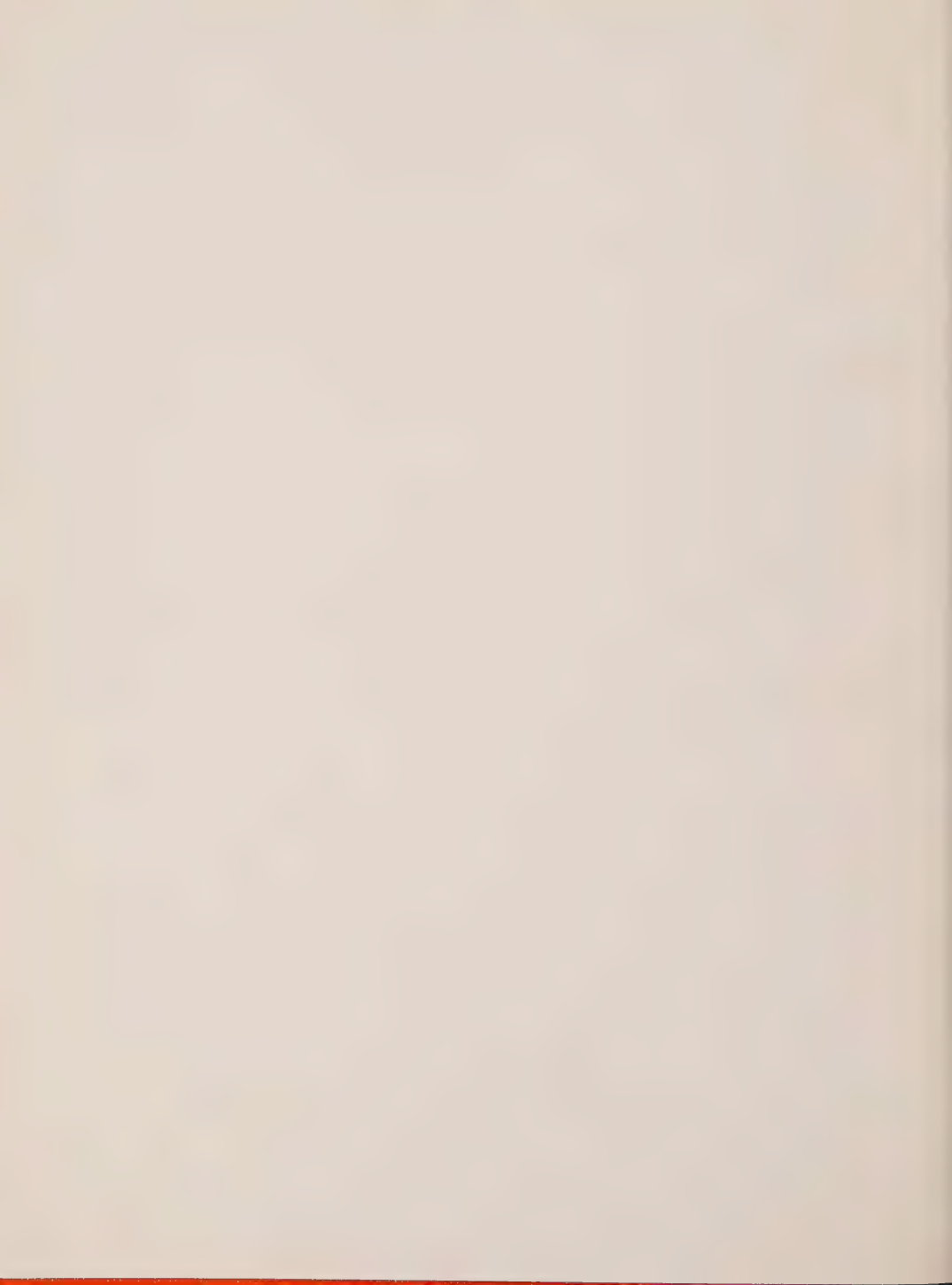
This Annual Report has been prepared by W.F. Morneau & Associates, Communications Consultants to the Commission. The Commission is interested in your comments on the publication and we would kindly ask you to send them to:

Communications Department
Teachers' Superannuation Commission
190 Finch Avenue West
Willowdale, Ontario
M2R 1M4

NOTES

NOTES

information contained in this Annual Report does
purport to describe the benefits of the Teachers'
superannuation Act in full detail. Should there be any
discrepancies the Teachers' Superannuation Act and
regulation will apply. You can obtain a copy of it through
your school or by writing to the Commission.



CAZON
DE 180
T11



Teachers' Superannuation Commission
Commission du régime de retraite des enseignants

ON THE MOVE



ANNUAL REPORT
1987



On peut se procurer la version française de cette rapport annuel en écrivant à la Commission.



*The accessible and spacious
offices at the Xerox Tower of
the North American Life Centre
will help the Teachers'
Superannuation Commission
serve you better.*

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CHAIRMAN'S REPORT

In 1987, the Teachers' Superannuation Commission celebrated its 70th birthday—but it didn't just get older, it got better.

The Ontario Teachers' Superannuation Fund provides the basic pensions for Ontario teachers. It is the third largest pension fund in Canada. Not only are its assets of \$11.65 billion on 31 December 1987 substantial, but the Fund is more than healthy. As of 31 December 1986, an actuarial valuation indicated that the Fund had a surplus of \$461 million.

In February 1988, the Provincial Government released a report by Laurence Coward recommending that the Superannuation Adjustment Fund, the fund which provides the escalation benefit, be amalgamated into the Teachers' Superannuation Fund.

A second report released in February, by Malcolm Rowan, proposes that the assets of the Teachers' Superannuation Fund be gradually placed in market investments.

A decision on these recommendations will be made by the Provincial Government after consultation with all interested parties.

The Commission's mandate, in law, is to administer the Act and to advise the Government when conflicts with other laws emerge.

In December 1987, the Pension Benefits Act, 1987 was proclaimed to be effective 1 January 1988. The Act sets a minimum standard with which all Ontario pension plans must comply. It affects contributions and pension benefits commencing 1 January 1987. It also dramatically reduces vesting and "lock-in" limits, while dramatically increasing interest rates on refunds and transfer values for those who leave the plan.

Whenever the Teachers' Superannuation Act is amended (it has been frequently amended in the last five years), contributors' entitlements change and the demand for information increases. To meet the demand, the Commission has expanded its staff and has moved to a new location as of 29 February 1988.

The new site has been equipped with state-of-the-art telecommunications and computing technology. The Toronto phone number is still the same, but new WATS lines are now open to callers.

It is expected that in its new location with its expanded staff, the Commission will be able to meet the demands of contributors, including the administration of future amendments to our Act arrived at through discussions between the Ontario Teachers' Federation and the Government.

While the Commission's mandate does not give it the license to be compassionate, I have never known an organization that assesses all its possibilities with so much consideration and compassion. A final "no" from the Commission usually means that a change in legislation is needed.

I would like to take this opportunity to thank my fellow Commissioners and the staff of the Commission for their concerted effort in doing all that is possible in what is proving to be as demanding as expanding the school systems in the 1950's and 1960's, namely, retiring the thousands of us who began teaching back then.



Sal Pengelley

Sal Pengelley
Chairman

*(Elected as Commissioner by the Teachers,
elected as Chairman by fellow-elected Teacher Commissioners)*

1987, A YEAR OF GROWTH AND CHANGE...

In 1987, the Teachers' Superannuation Commission was on the move...to administer the Teachers' Superannuation Fund...to stay on top of legislative changes...to inform contributors and pensioners about their pension plan...to respond to participants' needs...to prepare for the 1988 move to the new location at 5650 Yonge Street.

Although \$476 million was paid out in retirement benefits to pensioners in 1987, over four times that amount was returned to the Fund through contributions, interest and subsidies. This brought the excess of revenues over expenditures to \$1,477 million and the book value of total net assets to \$11,651 million.

The Fund has grown into the largest public sector pension fund in Ontario and the third largest pension fund in Canada. In fact, since 1965, the book value of assets has increased by over 25 times, the number of active plan members has increased by over one half, the number of pensioners has increased by over four times and the annual pension benefits paid have increased by over 26 times.

1987 saw the Commission grow in more ways than one. To accommodate changes to legislation and the increase in the number of retirees and plan contributors, the administrative organization of the Commission was expanded.

Changes to Pension Legislation

Because 1987 was a busy year at Queen's Park, the Commission had to keep pace with changes made to legislation affecting teachers' pensions.

C. Peter Honey

(Appointed by the Minister)

Susan Hildreth

Federation of Women Teachers' Association of Ontario
(Elected by the Teachers)



Given Royal Assent on 29 June 1987 and effective 1 January 1988, the Pension Benefits Act, 1987 (PBA, 1987) reformed the private and public pensions of some 1.8 million people in Ontario.

Subsequent to the passage of the PBA, 1987, various internal Commission work groups were formed to determine how the Teachers' Superannuation Fund would be affected. It is expected that the PBA, 1987 will have a dramatic impact on the Teachers' Superannuation Commission.

Low pension Regulation 156/87, passed by the Ontario Government on April 1, provided increases and a degree of inflation protection to over 3,000 pensioners receiving low pensions from the Teachers' Superannuation Fund.

Those affected were teachers with low paying salaries who retired before 1975 when regular inflation protection provisions were put in place by the government.

Changes made to the Education Act, the Family Law Act and the Income Tax Act also affect the Teachers' Superannuation Act. These pieces of legislation need, therefore, to be taken into consideration when interpreting the Teachers' Superannuation Act.

More Retirements Expected

The Commission has determined that most of the pension enquiries it receives come from contributors nearing the age of retirement. With a growing elderly population, it is expected that the number of those enquiries will increase.



Helen Salisbury

(Appointed by the Minister)

Leon Vigneault

*L'Association des enseignants franco-ontariens
(Elected by the Teachers)*

The Commission tries to ensure that all contributors understand their pension plan. An open and accessible organization, it attempts to address all participants' concerns via telephone, mail, workshop and counselling sessions.

More Contributors to Retire Early

In the Spring of 1987, the Teachers' Superannuation Act, 1983 was amended to provide a "35 and out" option so that there are now two early retirement opportunities.

- 1. Until 31 August 1989: 55-year-olds with 10 years of credit, and**
- 2. Until 31 August 1990: teachers at any age who have taught one or more days in each of 35 school years**

MAY RETIRE WITHOUT PENALTY

These two provisions will likely see a significant increase in the number of early retirements between the years 1986 and 1990.

Before these early retirement incentives were implemented, teachers could retire without reduction only if they were 65 or if their age plus years of service totalled at least 90.



David Kennedy

Director, School Business & Finance Branch
Ministry of Education
(Appointed by the Minister)



George Saranchuk

Ontario English Catholic Teachers' Association
(Elected by the Teachers)

Increase in the Number of Contributors

The number of active contributors to the Fund has increased dramatically throughout the years. In 1917, there were 13,000 contributors to the Fund. That number grew to 82,566 in 1965 and 133,181 in 1980. Today there are more than 141,000 active contributors to the Teachers' Superannuation Fund.

New Location

The growth in operations culminated in the Commission's move to the Xerox Tower of the North American Life Centre in Metropolitan Toronto. Pictured on the front cover of this Report, the new location is designed with service in mind.

It is easy to get to by bus, subway and highway 401. It offers improved office and computer facilities, more room for employees and better security for contributor and pensioner files.

With the move to the North American Life Centre comes an upgraded telephone system, an important link to contributors and pensioners. In 1987, the Commission received an average of 494 calls a day compared to 358 per day in 1985. Improvements to the system include an increased number of WATS lines to serve all regions of Ontario.



Kathy Bouey

Director, Intergovernmental Finance Policy Branch
Ministry of Treasury & Economics,
(Appointed by the Minister)



Ronald E. Poste

Ontario Public School Teachers' Federation
(Elected by the Teachers)

Leasing instead of buying the new location gives the Commission the flexibility to rent more or less space as the size of its operations change. This can be done without incurring the added cost or inconvenience of moving.

By providing all of these services, the new location helps the Commission to serve all contributors and pensioners.

Striving to Communicate

Because of its work with teachers, the Commission realizes the importance of a good education. That is why the Commission strives to educate contributors and pensioners about the value of their pension plan.

The annual Personalized Pension Statements, Exchange bulletins, Annual Report and Highlights Folder produced by the Commission's Communications Department all serve to increase participants' awareness of their entitlements.

...ON THE MOVE



On the move to provide contributors and pensioners with solid service—a goal the Teachers' Superannuation Commission met with great success in 1987. By continuing to administer the Teachers' Superannuation Act with the same careful controls and solid administration, the Commission is confident that it can continue to meet the needs of all contributors and pensioners.

Peter W. Ferren

Director of Education
Welland County R.C.S.S. Board
(Appointed by the Minister)

DIRECTOR'S REPORT

The year 1987 was yet another of rapid growth and change at the Commission. The number of persons receiving a pension in 1987 climbed to 31,625, up from 29,237 in 1986 and up from 24,536 in 1983. That is over 25% growth in just four years.

As I write this report, the rate of retirement is rising even more rapidly, due to two early retirement opportunities. These are the "35 and out" feature, which expires at the end of August 1990 and the "early retirement window", which expires at the end of August 1989.

As well, teacher interest in purchasing optional credit remains unabated. In 1987, over 9,000 teachers contributed \$5,876,000 to purchase optional credit in the Fund.

As a result of the increasing number of retiring teachers, the sustained high level of optional credit purchases and now the inception of the Pension Benefits Act, 1987, the Commission has felt compelled to increase the resources it allocates to the administration of the plan. This takes the form of the number of staff, and the equipment and space to allow the staff to function effectively.

In 1987, the Commission authorized the hiring of five additional counsellors, bringing the total to twelve. In addition, the Commission authorized an overall staff complement increase (including the five counsellors) of 22, bringing the total to 163, up from 109 in 1983. As these additional staff become more experienced, there will be improved service and reduced response times for contributors and pensioners.

For 1988, the Commission staff structure will be expanded to 208 and divided into two divisions. Mr. William G. Foster is named Division Director, Administration and Information Services, and Mr. Allan H. McKellar is named Division Director, Communications and Entitlements Division.

The current pressure on the Teachers' Superannuation Commission is like that on the school boards in the 1950's and 1960's. We are now experiencing a teacher-retiree explosion as a direct result of the student and teacher explosion 30 years ago.

The staff of the Teachers' Superannuation Commission remains committed to meeting the challenges of the late 1980's and ensuring the delivery to the contributors and pensioners of all the rights and opportunities which flow to them through the Teachers' Superannuation Act, 1983, and the Pension Benefits Act, 1987.



A large, stylized handwritten signature in black ink, reading "D.F. McArthur".

D.F. McArthur
Director



OFFICE OF THE PROVINCIAL AUDITOR

Box 105, 15th Floor, 20 Dundas St. West
Toronto, Ontario M5G 2C2
(416) 974-9866

To the Members of the Teachers' Superannuation Commission
and to the Minister of Education.

I have examined the statements of net assets available for benefits and long term investments of the Teachers' Superannuation Fund as at December 31, 1987, and the statements of changes in net assets available for benefits and administration expenditures for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1987 and the results of its operations for the year then ended in accordance with the accounting policies set out in the Summary of Significant Accounting Policies (note 2) to the financial statements applied on a basis consistent with that of the preceding year.

A report on the audit has been made to the Commission and to the Minister of Education.

A handwritten signature in black ink, reading "J.F. Otterman". The signature is written in a cursive style with a large, stylized "J" and "O".

Toronto, Ontario
February 24, 1988

J.F. Otterman, F.C.A.,
Assistant Provincial Auditor.

Teachers' Superannuation Fund

STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS

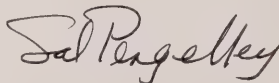
as at December 31, 1987

(in thousands)

ASSETS			
		1987	1986
Investments			
Province of Ontario debentures	\$10,893,100		\$ 9,469,100
Short term	65,647		79,098
	<u>10,958,747</u>		<u>9,548,198</u>
Receivable from Province of Ontario			
Matching contributions	266,025		249,895
Interest on matching contributions	<u>43,761</u>		<u>45,389</u>
	309,786		295,284
Receivable from Superannuation Adjustment Fund	14		
Accrued interest receivable	367,455		320,463
Cash	<u>27,945</u>		<u>17,513</u>
Total assets	<u><u>11,663,947</u></u>		<u><u>10,181,458</u></u>
LIABILITIES			
Accounts payable and accrued liabilities	9,876		6,872
Payable to school boards, net	3,553		707
Payable to Superannuation Adjustment Fund			<u>299</u>
Total liabilities	<u>13,429</u>		<u>7,878</u>
Net assets available for benefits (note 4)	<u><u>\$11,650,518</u></u>		<u><u>\$10,173,580</u></u>

Approved by

Chairman



Director



STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 1987

(in thousands)

	1987	1986
Interest income		
Investments	\$ 1,166,105	\$ 1,022,049
Payments for additional credit in the Fund and school board contributions	9,981	10,343
	<u>1,176,086</u>	<u>1,032,392</u>
Contributions		
By contributors employed in education by		
School boards	285,480	266,870
Designated private schools or organizations	4,822	5,146
For credit in the Fund	5,876	6,203
Matching contributions		
Province of Ontario including interest of \$43,761 (\$44,443 in 1986)	309,786	294,338
Designated private schools or organizations	4,822	5,146
	<u>610,786</u>	<u>577,703</u>
Repayments of refunds and interest	6,431	5,719
Transfers from other pension funds including interest	6,144	3,763
	<u>623,361</u>	<u>587,185</u>
Total revenue	<u>1,799,447</u>	<u>1,619,577</u>
Benefits paid	<u>475,707</u>	<u>397,058</u>
Less recovery from:		
Province of Ontario		
Minimum pension and escalation subsidies for certain contributors	12,406	12,952
Escalation of pensions of contributors who did not contribute to Superannuation Adjustment Fund	100,315	91,486
Low pension subsidy	2,801	
Superannuation Adjustment Fund	60,745	50,281
	<u>176,267</u>	<u>154,719</u>
Net benefits paid	<u>299,440</u>	<u>242,339</u>
Refunds and transfers		
Refunds of contributions and interest	8,637	8,471
Transfers to other pension plans including interest	4,042	12,281
	<u>12,679</u>	<u>20,752</u>
Administration expenditures	<u>10,390</u>	<u>6,965</u>
Total expenditures	<u>322,509</u>	<u>270,056</u>
Net increase in net assets available for benefits	<u>1,476,938</u>	<u>1,349,521</u>
Net assets available for benefits at beginning of year	<u>10,173,580</u>	<u>8,824,059</u>
Net assets available for benefits at end of year (note 4)	<u>\$11,650,518</u>	<u>\$10,173,580</u>

Teachers' Superannuation Fund

STATEMENT OF LONG TERM INVESTMENTS

Province of Ontario debentures

as at December 31, 1987

(in thousands)

Maturity Date	Interest Rate (%)	1987		1986	
		Principal	%	Principal	%
1987	6.00 — 6.99	\$		\$ 176,000	1.86
1992-1994	6.00 — 6.99	454,500	4.17	454,500	4.80
	8.00 — 8.99	195,000	1.79	195,000	2.06
		649,500	5.96	649,500	6.86
1995-1997	7.00 — 7.99	110,000	1.01	110,000	1.16
	8.00 — 8.99	172,000	1.58	172,000	1.82
	10.00 — 10.99	197,500	1.81	197,500	2.08
		479,500	4.40	479,500	5.06
1998-2000	7.00 — 7.99	9,500	0.09	9,500	0.10
	8.00 — 8.99	286,100	2.63	286,100	3.02
	9.00 — 9.99	1,026,000	9.42	1,026,000	10.84
	11.00 — 11.99	273,000	2.50	273,000	2.88
		1,594,600	14.64	1,594,600	16.84
2001-2003	9.00 — 9.99	488,000	4.48	488,000	5.15
	10.00 — 10.99	334,500	3.07	334,500	3.53
	11.00 — 11.99	296,000	2.72	296,000	3.13
	12.00 — 12.99	230,000	2.11	230,000	2.43
	13.00 — 13.99	315,000	2.89	315,000	3.33
		1,663,500	15.27	1,663,500	17.57
2004-2006	10.00 — 10.99	465,000	4.27	465,000	4.91
	11.00 — 11.99	490,000	4.50	490,000	5.17
	12.00 — 12.99	1,396,000	12.82	1,396,000	14.74
	13.00 — 13.99	460,000	4.22	460,000	4.86
	14.00 — 14.99	335,000	3.07	335,000	3.54
		3,146,000	28.88	3,146,000	33.22
2007-2009	10.00 — 10.99	750,000	6.89	305,000	3.22
	11.00 — 11.99	1,105,000	10.14	510,000	5.39
	15.00 — 15.99	945,000	8.68	945,000	9.98
		2,800,000	25.71	1,760,000	18.59
2010	10.00 — 10.99	560,000	5.14		
		\$10,893,100	100.00	\$9,469,100	100.00

STATEMENT OF ADMINISTRATION EXPENDITURES

for the year ended December 31, 1987

(in thousands)

	1987	1986
Salaries and benefits	\$ 5,244	\$3,971
Communications consulting services	362	121
Data processing services	304	255
Postage, distribution and advertising	300	191
Printing and stationery	256	269
Office rental	242	121
Purchase of computer equipment	184	546
Publications and external communications	175	98
Actuarial services	173	100
Repairs and maintenance	155	113
Telecommunications	131	121
Equipment purchases	100	73
Legal fees	91	114
Equipment rental	90	158
Consulting services	87	68
Audit fees	72	60
Commissioners' remuneration	55	40
Bank services	53	54
Training and development	50	42
Computerized accounting project	49	184
Utilities	47	44
Translation services	39	36
Travel — staff	37	35
— Commissioners	35	43
Design consulting fees	30	55
Other	30	16
Medical fees	11	12
Insurance	10	13
Vehicle purchase		12
	<u>8,412</u>	<u>6,965</u>
Relocation costs		
Leasehold improvements	1,694	
Professional services	240	
Supplies and equipment	44	
	<u>1,978</u>	<u> </u>
	<u><u>\$10,390</u></u>	<u><u>\$6,965</u></u>

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1987

1. DESCRIPTION OF THE PLAN

The following brief description of the Teachers' Superannuation pension plan (the Plan) is provided for general information purposes only. For more complete information reference should be made to the Teachers' Superannuation Act, 1983 (the Act).

(a) General

The Plan is a contributory defined benefit pension plan of the Province of Ontario and is mandatory for persons who satisfy eligibility requirements provided in the Act. Under this Plan contributions are made by persons employed in education (contributors), certain boards and organizations and the Province of Ontario.

(b) Funding Policy

The Pension Benefits Act of Ontario requires that the Ontario Government, acting as the Plan sponsor, must fund the benefits determined under the Plan. The determination of the value of these benefits is made on the basis of a triennial actuarial valuation.

(c) Service Pensions

A service pension is available based on credit in the Fund, best five year average salary and age of the contributor. A 90 factor (age and service) provides an unreduced pension at any age. An early retirement service pension is available from age 55. Reduction factors which generally apply for early retirement pensions have been suspended for retirements in the period June 1986 to August 1989 inclusive. In addition, a 35 year service factor is available to provide an unreduced pension at any age for retirements in the period June 1987 to August 1990 inclusive.

(d) Disability Pensions

A disability pension is available at any age with a minimum of 10 years credit. A total disability pension is paid where the contributor is determined by the Teachers' Superannuation Commission (the Commission) to be incapable of further earning a livelihood. A partial disability pension is paid where the contributor is determined by the Commission to be totally disabled from further employment in education only.

(e) Survivor Pensions

A survivor pension is paid to a spouse, as defined in the Family Law Act, a child, or a named dependant of a contributor who has a minimum of 10 years credit.

1. DESCRIPTION OF THE PLAN (Continued)

(f) Death Refunds

A death refund is payable to the estate of a contributor or a pensioner when the individual's contributions plus interest exceed the pension(s) paid plus interest.

(g) Withdrawal Refunds

Upon application and subject to the lock-in provisions, withdrawal refunds, with interest on the contributions, are payable where a contributor ceases to be employed in education.

(h) Income Taxes

The Teachers' Superannuation Fund (the Fund) is a Registered Pension Trust as defined by the Income Tax Act and therefore is not subject to income tax.

(i) Superannuation Adjustment Fund

The Superannuation Adjustment Fund is a contributory fund set up under the Superannuation Adjustment Benefits Act to provide cost-of-living escalations to pensioners under the Teachers' Superannuation Act. The Teachers' Superannuation Commission administers the collection of contributions and the payment of benefits for the Superannuation Adjustment Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The statements present the financial position of the Fund and have been prepared in accordance with generally accepted accounting principles except as indicated under the basis of accounting. They are prepared to assist plan participants in reviewing the activities of the Fund for the fiscal period.

The financial statements do not purport to reflect the financial status of the plan if terminated on any valuation date nor do they reflect the funding requirements of the Plan.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1987

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting

i) Revenue

Contributions from contributors as well as matching contributions from designated private schools or organizations are recorded in the year in which they are received.

The matching contributions from the Province are recorded as an amount equal to the contributions of the contributors including payments for credit in the Fund where applicable, for the year preceding the current year. Interest is recorded on this amount for the nineteen month period ended December 31 of the current year in accordance with Section 6 of the Teachers' Superannuation Act, 1983.

Special payments from the Province are recorded in the year in which they are received.

ii) Expenditures

Capital expenditures, including expenditures for real property, are reflected as administration expenditures in the statement of changes in net assets available for benefits in accordance with the Act.

Future benefits to current contributors and pensioners, refunds, and transfers are recorded in the year in which payments are made. However, provisions for such amounts are included in the determination of the actuarial liabilities.

iii) Investments

Province of Ontario debentures

Maturing debentures and other surplus funds are used to purchase Province of Ontario debentures in accordance with Section 72 of the Act. Province of Ontario debentures are stated at cost. These investments are not valued at their current market value as they are required to be held to the maturity of the debenture. Accordingly, increases or decreases in current value will not be realized.

Short term

Short term investments are stated at cost which approximates market value.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1987

3. PENSION BENEFITS ACT, 1987

The Pension Benefits Act, 1987 introduced new minimum standards for all pension plans registered in Ontario. The Plan must be administered in accordance with the Pension Benefits Act, 1987 and its regulations, effective January 1, 1988. It is expected that the provisions of the Teachers' Superannuation Act, 1983, will be amended, as required, to conform with the provisions of the Pension Benefits Act, 1987.

4. NET ASSETS AVAILABLE FOR BENEFITS

The adequacy of the net assets available for benefits is determined by an actuarial valuation at least once each three years. The latest actuarial valuation available for filing with the Pension Commission of Ontario was as at December 31, 1986.

The application of the Pension Benefits Act, 1987, described in note 3, may increase benefits paid in certain circumstances. The impact of these changes on the accrued Plan benefits is not reflected in this note nor will it be known prior to the completion of a future actuarial review.

The actuarial liabilities of the plan are determined by applying actuarial assumptions to project the amount and timing of future benefits and refunds together with teacher and matching contributions, and then discounting those projected benefits and contributions to reflect the time value of money between the valuation date and the expected dates of payment.

In previous actuarial valuations, an assumed long-term interest rate was used to compute the actuarial value of both the assets and the liabilities of the Fund. In this valuation, the actuarial value of assets was taken to be their book value, and the discount factors used to compute the actuarial liabilities were based on the stream of interest rates that are expected to be earned by the Fund in future years. The effect of this change in technique was to reduce the actuarial value of the assets and the actuarial value of the liabilities by approximately the same proportion.

The assumed investment earnings and general salary increase rates used in the actuarial valuation were:

	Assumed Interest Rate on Debenture Placements in the year	General Salary Increase Rate
	%	%
1987	10.8	5.0
1988	9.6	5.0
1989	8.3	5.5
1990 and later	7.0	6.0

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1987

4. NET ASSETS AVAILABLE FOR BENEFITS (Continued)

The actuarial valuation at December 31, 1986 revealed the following:

		(in thousands)
Actuarial assets		
Net assets available for benefits at book value		\$10,174,000
Contributions receivable from Province		290,000
Other		74,000
		<hr/>
Actuarial assets		10,538,000
		<hr/>
Actuarial liabilities		
Present pensioners		2,071,000
Active teachers—present value of benefits	\$13,302,000	
—present value of 2x teacher contributions	(5,608,000)	7,694,000
		<hr/>
Inactive teachers		242,000
Other		70,000
		<hr/>
Actuarial liabilities		10,077,000
		<hr/>
Surplus at December 31, 1986		\$ 461,000
		<hr/>

Since the actuarial valuation indicated that a surplus existed at December 31, 1986, special funding payments are not required.

For more complete information, reference should be made to the actuarial report at December 31, 1986.

5. CONTINGENCY

Claims against the Fund exist on account of corrective steps taken in September 1986 in order to conform to a legal interpretation of the Act. These steps have resulted in the reduction of approximately 1500 pensions on a prospective basis. The outcome of these claims cannot be reasonably determined at this time. Accordingly, no provision has been made in the financial statements. Settlement, if any, will be recorded in the year of resolution of the claims.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1987

6. COMMITMENTS

The Fund has committed to expenditures during 1988 of \$4.2 million for office relocation including leasehold improvements, supplies and equipment, and professional services.

The Fund is also committed under a lease for new premises to the following minimum lease payments:

	(in thousands)
1988	\$ 680
1989	1,344
1990	1,344
1991	1,344
1992	1,344
1993 to 1997	8,954
	<u>\$15,010</u>









7. REPORTS ON PUBLIC SECTOR PENSION ISSUES

Proposals on public sector pension issues have been made by the Rowan Task Force Report on The Investment of Public Sector Pension Funds and the Coward Report on The Financing of Benefits under the Superannuation Adjustment Benefits Act. These reports recommend that the indexation funds be merged with the basic public sector pension funds including the Teachers' Superannuation Fund, that funding arrangements be changed, and that assets be gradually invested in market instruments. The proposals are currently under review by the Province of Ontario.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

as at December 31

(in thousands)

	1987	1986	1985	1984	1983
Revenue					
 Interest	\$ 1,176,086	\$ 1,032,392	\$ 894,282	\$ 753,331	\$ 623,362
Contributions					
 Contributors	296,178	278,219	261,194	240,979	197,891
 Matching	314,608	299,484	263,553	235,747	194,988
	610,786	577,703	524,747	476,726	392,879
Unfunded Liability			39,098	39,098	39,098
 Other	12,575	9,482	7,881	5,388	(1,754)
	1,799,447	1,619,577	1,466,008	1,274,543	1,053,585
Expenditure					
 Net benefits paid	299,440	242,339	202,479	172,323	151,175
 Administration expenditures	10,390	6,965	5,049	4,387	4,074
 Other	12,679	20,752	12,591	8,757	9,623
	322,509	270,056	220,119	185,467	164,872
 Excess of revenue over expenditure	\$ 1,476,938	\$ 1,349,521	\$ 1,245,889	\$ 1,089,076	\$ 888,713
Net assets					
Investments	\$10,958,747	\$ 9,548,198	\$8,258,676	\$7,110,619	\$6,088,499
Cash and receivables	705,200	633,260	575,130	473,986	409,029
Liabilities	(13,429)	(7,878)	(9,747)	(6,435)	(8,434)
	\$11,650,518	\$10,173,580	\$8,824,059	\$7,578,170	\$6,489,094
Financial statistics					
Rate of return on investments (1)	11.4%	11.5%	11.5%	11.3%	11.0%
Percentage of 1982					
Net assets	208%	182%	158%	135%	116%
Administration expenditures	280%	188%	136%	118%	110%

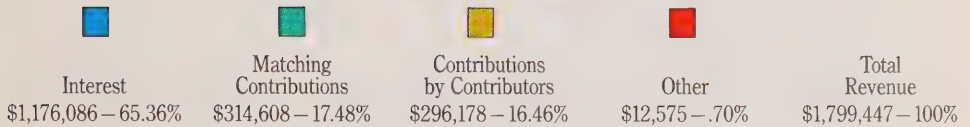
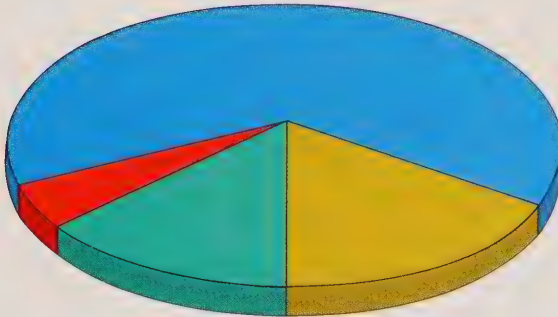
(1) Based on average investments during year.

REVENUE AND EXPENDITURE

Year ended December 31, 1987

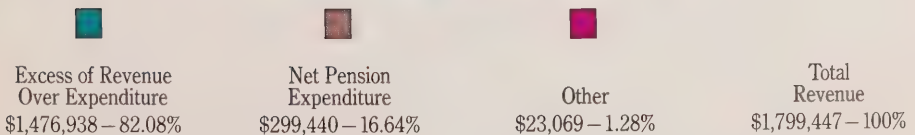
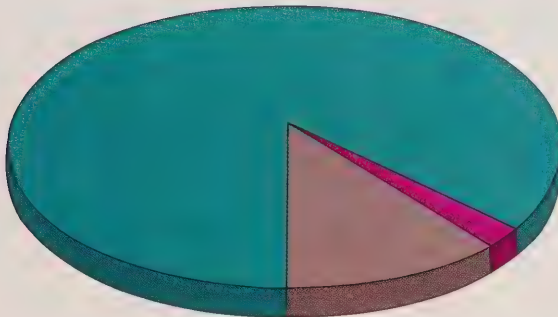
Revenue

(000's)



Expenditure

(000's)



Teachers' Superannuation Commission
SUMMARY OF SELECTED DATA
for the Calendar Year

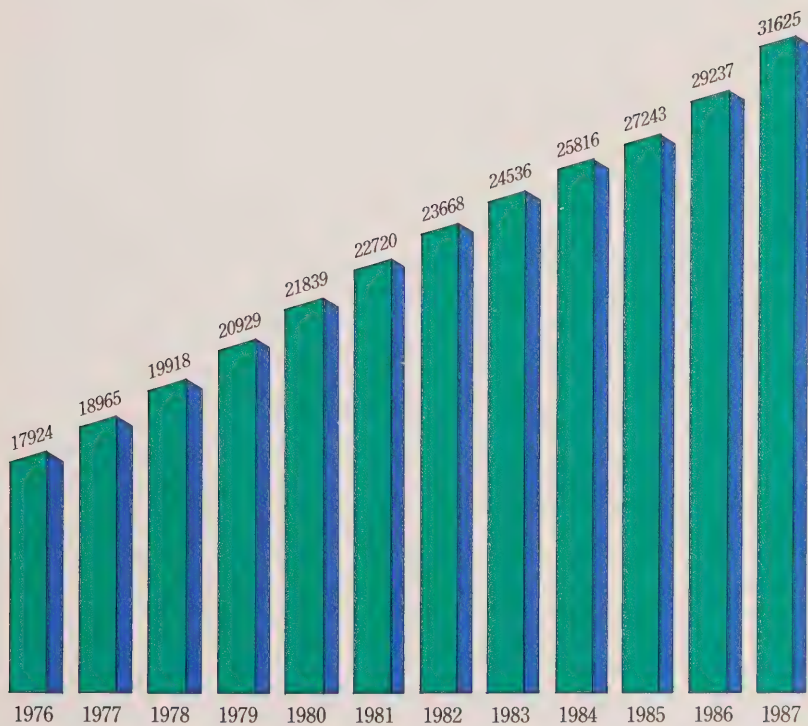
	<u>1987</u>	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>
Active contributors					
Full-time	(1)	112,401	109,721	107,453	106,871
Part-time	(1)	8,540	9,270	9,523	9,136
Casual	(1)	19,698	19,629	19,656	18,602
Total	<u>(1)</u>	<u>140,639</u>	<u>138,620</u>	<u>136,632</u>	<u>134,609</u>
Active pensioners					
Number by type of pension					
Unreduced	13,959	13,248	12,428	11,742	11,210
Reduced	12,233	10,730	9,779	9,278	8,947
Disability					
Full	831	832	830	809	803
Partial	826	831	838	813	791
Survivor	3,776	3,596	3,368	3,174	2,785
Total	<u>31,625</u>	<u>29,237</u>	<u>27,243</u>	<u>25,816</u>	<u>24,536</u>
Average age at inception of pension	60.49	60.75	60.92	(1)	(1)
Average years on pension	9.27	9.45	9.60	(1)	(1)
Average pension (2)					
Unreduced	\$23,006	21,251	19,481	17,760	15,887
Reduced	\$10,525	8,551	7,142	6,456	5,798
Disability					
Full	\$11,220	10,066	9,345	8,500	7,732
Partial	\$ 9,352	8,450	7,914	7,194	6,454
Survivor	\$ 8,058	7,350	6,779	6,238	5,792
Overall	<u>\$15,727</u>	<u>14,198</u>	<u>12,817</u>	<u>11,658</u>	<u>10,490</u>

(1) Data not available

(2) Total pension including cost-of-living escalation and subsidies not funded by Teachers' Superannuation Fund.

PENSION REGISTER

Year ended December 31



SCHEDULE OF ADMINISTRATION EXPENDITURES

for the year ended December 31

(in thousands)

	1987	1986	1985	1984	1983
Personnel services, including employee benefits					
– salaries	\$ 4,588	\$3,475	\$2,969	\$2,696	\$2,479
– benefits	656	496	460	420	397
– training and development	50	42	23		
	<u>5,294</u>	<u>4,013</u>	<u>3,452</u>	<u>3,116</u>	<u>2,876</u>
Communications and Travel					
– travel expenses	37	35	35	32	60
– postage	300	191	159	122	115
– publications & external communications	175	98			
Purchase of Services					
– actuarial	173	100	62	62	101
– audit	72	60	47	34	46
– medical	11	12	17	12	12
– legal	91	114	35	20	16
– communications consulting	362	121	37		
– other professional services	117	123	10	20	14
– translation	39	36	24	21	11
– maintenance and repairs	155	113	104	67	65
– utilities	178	165	132	127	82
– office rental	242	121			
– rental, data processing/office equipment, other data centre services	394	413	301	378	381
– insurance	10	13	8	4	4
– Commissioners' costs	90	83	67	67	32
– computerized accounting project	49	184	183		
Supplies and Equipment					
– printing and stationery	256	269	268	155	141
– office furniture, equipment and vehicle	100	85	52	94	43
– computer equipment purchase	184	546			
Unclassified	83	70	56	56	75
Total Operating	<u>8,412</u>	<u>6,965</u>	<u>5,049</u>	<u>4,387</u>	<u>4,074</u>
Relocation					
– leasehold improvements	1,694				
– professional services	240				
– supplies and equipment	44				
Total Relocation	<u>1,978</u>				
TOTAL	<u>\$10,390</u>	<u>\$6,965</u>	<u>\$5,049</u>	<u>\$4,387</u>	<u>\$4,074</u>

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February 19, 1988

ACTUARIES' OPINION THE TEACHERS' SUPERANNUATION FUND

The Teachers' Superannuation Fund is financed by:

- i) contributions by teachers at the rate specified in the Teachers' Superannuation Act;
- ii) contributions by the Province and other specified employers that match the teachers' contributions; and
- iii) special payments by the Province and other specified employers in amounts which, when added to the teacher and matching contributions, are sufficient to finance the benefits payable from the Fund and meet the funding requirements under the Ontario Pension Benefits Act.

We have made an actuarial valuation of the Fund as of December 31, 1986. On that date, the teacher and matching contributions were at the rate of 6.9% of salary less 1.8% of the part of a teacher's salary between the Year's Basic Exemption and the Year's Maximum Pensionable Earnings under the Canada Pension Plan. We determined in the actuarial valuation that special payments to the Fund were not required after December 31, 1986.

In our opinion, the actuarial value of the assets of the Fund on December 31, 1986 and of the future teacher and matching contributions exceeded the actuarial value of all benefit obligations under the Teachers' Superannuation Act with respect to both the past and future service of all active, inactive and retired teachers who began teaching at any date before December 31, 1986. Notwithstanding the foregoing opinion, emerging experience differing from the assumptions that we used will result in gains or losses that will be revealed in future valuations.

Various amendments will be made to the Teachers' Superannuation Act to bring it into compliance with the Pension Benefits Act, 1987. The effect of those amendments will be described in a future actuarial report.

The above results do not take account of the escalation benefits and the contributions by teachers, the Province and other specified employers that are provided under the Superannuation Adjustment Benefits Act.

In our opinion, the data on which the above valuation results are based are sufficient and reliable for the purpose of the valuation, the assumptions used are adequate and appropriate for the purpose of the valuation, and the methods employed are consistent with sound actuarial principles.

M. D. R. Brown *P. F. Flanagan*

M. David R. Brown, F.C.I.A.

Patrick F. Flanagan, F.C.I.A.

HIGHLIGHTS OF ACTUARIAL REPORT

The actuaries' opinion and note 4 to the financial statements are based on the actuarial valuation of the Fund as of December 31, 1986. The last previous triennial actuarial valuation of the Fund was conducted as of December 31, 1984.

The December 31, 1986 valuation results are not directly comparable with those of previous valuations because of a change in actuarial methodology. Under the previous methodology, the present values of both the assets and liabilities were determined by discounting future cash flows at the assumed long-term interest rate of 7%. On the asset side, the result was to increase the actuarial value of the assets substantially above the book value reported in the financial statements of the Fund.

Under the new methodology, the assets are carried at book value and the liabilities are determined by using "streamed" interest rates which reflect both the current high level of interest rates being earned on the Fund's assets and the projected long-term rates to be earned on future investments.

The change in methodology reduces both the assets and liabilities by roughly one-third. The actuarial surplus is similarly reduced. It is important to recognize that this reduction in the absolute amount of surplus does not indicate a deterioration in the funded status of the plan. The ratio of surplus to actuarial liabilities is approximately the same under both methods of measurement.

The process followed in this valuation included a review of all actuarial assumptions and methods. In addition to the change in methodology described above, the following decisions were made as a result of that review:

- The long-term interest and salary projection assumptions were the same as those used in the previous valuation.
- The short-term interest and salary projection assumptions were updated to reflect recent experience.
- Some of the demographic assumptions were modified to reflect recent experience. In particular, the assumed rates of early retirement were increased to reflect, in part the continuing trend of recent experience.

HIGHLIGHTS OF ACTUARIAL REPORT (Continued)

The projected cash flow and fund balance is presented on the following page. In the projections, the same data and actuarial assumptions were used as those in the valuation of the Fund as of December 31, 1986. It was also assumed that:

- (i) the distribution of new entrants by class, age, sex and salary would be the same as that for teachers who had less than one year of qualifying service in the fund as of December 31, 1986, except that the assumed starting salaries would be increased each year in accordance with the assumed rates of general salary increase; and
- (ii) the contribution and benefit rates would be those as described in the Teachers' Superannuation Act, 1983.
- (iii) the number of active teachers would remain at the December 31, 1986 level.

Given the number of assumptions required and the volatility of the underlying variables, it is not possible to predict the future cash flow of the Fund very accurately. However, the projections are most useful for two purposes:

- (1) To identify trends such as changes in the relative size of contributions and interest payments; and
- (2) To provide some idea, however imperfect, of the direction and magnitude of changes in the net cash flow.

PROJECTED CASH FLOW AND FUND BALANCE

(all figures in \$millions)

Year	Teachers' Contributions	Matching Contributions by		Special Payments	Interest	Total Inflow	Benefit Payments	Administrative Expenses	Total Outflow	Net Cash Flow	Year-End Fund Balance
		The Province	Other Employers								
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1987	252	310	5	—	1,180	1,747	292	6	298	1,449	11,987
1988	262	289	5	—	1,329	1,885	337	7	344	1,541	13,528
1989	272	296	5	—	1,469	2,042	401	7	408	1,634	15,162
1990	284	302	6	—	1,595	2,187	458	7	465	1,722	16,884
1991	300	309	6	—	1,717	2,332	491	8	499	1,833	18,717
1992	317	327	6	—	1,859	2,509	528	8	536	1,973	20,690
1993	334	345	7	—	1,990	2,676	574	8	582	2,094	22,784
1994	351	364	7	—	2,137	2,859	633	9	642	2,217	25,001
1995	367	382	7	—	2,295	3,051	707	9	716	2,335	27,336
1996	383	400	8	—	2,455	3,246	797	10	807	2,439	29,775

WORKSHOP SCHEDULE

1988-1990

The workshops on retirement matters, sponsored by the affiliates of the Ontario Teachers' Federation, will be held during the school years 1988-1989 and 1989-1990 at the locations listed below.

At that time, anyone may submit a request to the local affiliate for a personal interview with a representative of the Teachers' Superannuation Commission.

1988-89		1989-90	
September 30-October 1	St. Catharines	October 6-7	Sudbury
October 14-15	Goderich	October 20-21	Bracebridge
November 4-5	Elliot Lake	November 10-11	Renfrew
November 18-19	Chatham	November 24-25	Cambridge
December 2-3	Hamilton	December 8-9	Mississauga
January 27-28	Metro-Toronto	January 26-27	Metro-North York
February 10-11	Ottawa	February 9-10	Windsor
February 24-25	London	March 2-3	St. Thomas
March 31-April 1	Belleville	March 23-24	Kingston
April 21-22	Kapuskasing	April 20-21	Kirkland Lake
May 12-13	Thunder Bay	May 11-12	Kenora

Membership of the Commission

During 1987, Ms. Josephine Stemerowicz resigned from the Commission after 8 years of service. She was replaced by Ms. Susan Hildreth starting September 1987.

Acknowledgements

The Commission acknowledges the advice and assistance which has been received throughout the year from its advisors.

Eckler Partners Ltd. — Actuary
Thorne Ernst & Whinney — Chartered
Accountants
Dr. B. W. Vale — Medical Referee

Communications

This Annual Report has been prepared by W.F. Morneau & Associates, Communications Consultants to the Commission. The Commission is interested in your comments on this publication and we would kindly ask you to send them to:

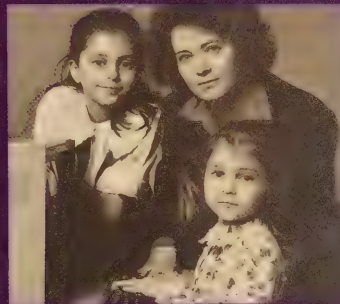
Communications Department
Teachers' Superannuation Commission
5650 Yonge Street, Suite 400
North York, Ontario
M2M 4H5

The information contained in this Annual Report does not purport to describe the benefits of the Teachers' Superannuation Act in full detail. Should there be any discrepancies the Teachers' Superannuation Act and Regulation will apply. You can obtain a copy of it through your school or by writing to the Commission.

Lacking 1988-1989

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Gouvernement
Public



1990 ANNUAL REPORT

INVESTING IN YOUR FUTURE



Teachers'
Pension Plan
Board

Conseil du régime
de retraite des enseignantes
et des enseignants



Profile

The Ontario Teachers' Pension Plan Board is a new corporation established in 1990 by the Province of Ontario. The pension board has two fundamental responsibilities:

- To administer the pension plan for the province's elementary and secondary school teachers. Pension services are currently provided to approximately 160,000 active teachers, 88,000 inactive teachers, and 39,000 pensioners.
- To manage the assets of the pension plan. With assets exceeding \$20 billion, the plan ranks among Canada's largest financial institutions.

Originally created in 1917, the teachers' pension plan had historically been restricted to investing in Ontario debentures. New legislation empowers the pension board to pursue a diversified investment strategy to help make the plan fully funded over the long term. The asset mix will include shares in major corporations, money market securities and government bonds, and other income-producing assets.

The pension plan is sponsored by the government of Ontario in accordance with the *Teachers' Pension Act, 1989*. The pension plan's eight-member board of directors is appointed by the provincial government with five directors nominated by the Minister of Education and three by the Ontario Teachers' Federation.



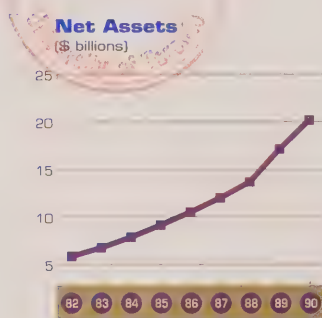
Financial Highlights

as of December 31

(in millions of dollars)	1990
Province of Ontario debentures	15,952
Other assets	4,449
	20,401
Adjustment to market values to smooth fluctuations	709
Total assets	21,110
Estimated cost of benefits	24,391
Other liabilities	277
Total liabilities	24,668
(Deficiency) of assets over liabilities	(3,558)

Our 1990 financial information differs from that of previous years. For the first time, assets are at market value; in prior years, assets were valued at cost. The 1990 figures combine the assets of the former Teachers' Superannuation Fund and the portion of assets in the provincial government's

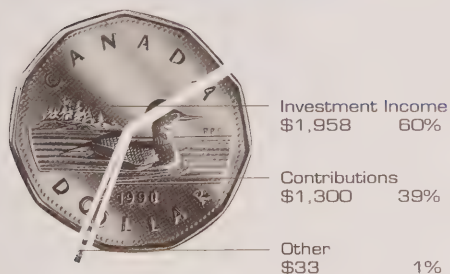
Superannuation Adjustment Fund that supported cost-of-living increases in teachers' pensions. Consequently, the 1990 results cannot be fully compared with prior years and should be viewed as the benchmark for comparing future financial performance.



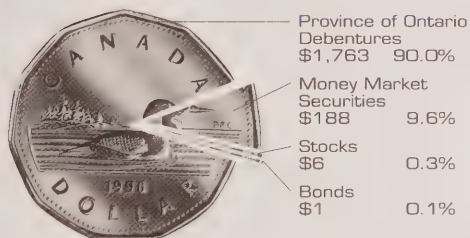
Operational Highlights



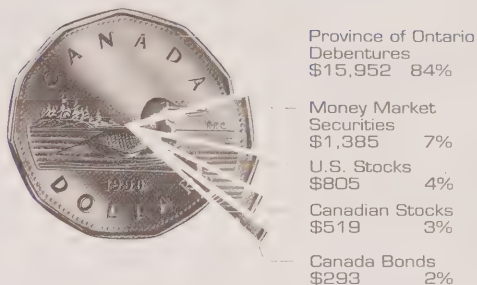
1990 Increase in Assets (millions)



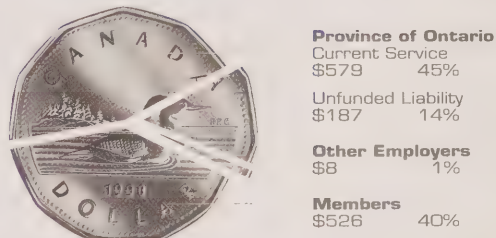
1990 Investment Income (millions)



1990 Asset Mix at Market Value (millions)



1990 Contributions (millions)



Contents

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- Hiring of the Chief Executive Officer
- Hiring of the Senior Vice-President of Investments
- Creation of the Investment Division and hiring of professional investment managers
- Development of an investment strategy and asset mix policy
- Expansion of investments in the Canadian money market
- Initial investments in Canadian and U.S. stocks and bonds
- Reorganization to create a Client Services Division

Condensed Financial Information**(in millions of dollars)**

Changes in Money Available for Year Ended December 31	1990	% (2) Increase (Decrease)	1989
How Income was Earned			
Investment income - 90% of this income from Province of Ontario debentures	1,958	28	1,532
Contributions from members	526	42	371
Contributions from Province of Ontario, including interest	579	43	404
Contributions from other employers	8	42	6
Contributions from Province of Ontario for unfunded liability	187		
Other sources of income	33	83	18
Total income earned	3,291	41	2,331
How Income was Used			
Decline in the market value of investments over the year	926		
Cost of benefits	761	70	448
Administrative costs	20	30	16
Total income used	1,707	268	464
	1,584	(15)	1,867
Increase in Estimated Cost of Benefits	1,770		
(Increase in Deficiency) in Money Available	(186)		
Position at Year End			
How Much Money is Available			
Fixed income investments held mainly in the form of Province of Ontario debentures	16,245	(6)	17,262 ⁽¹⁾
Investments in money market	1,385	394	281
Stocks	1,324		
Contributions earned but not yet received, primarily from Province of Ontario	945	27	744
Interest and dividends earned but not yet received	502	8	464
Cash			27
Total money invested	20,401	9	18,778
Adjustment to market values to smooth fluctuations ⁽³⁾	709		
Total money available	21,110	12	18,778
How Much Money will be Needed			
Estimated cost of benefits for service prior to December 31	24,391	11	21,912
Other liabilities	277	16	238
Total money needed	24,668	11	22,150
(Deficiency) in Money Available	(3,558)	6	(3,372)

(1) Restated to market value for comparative purposes.

(2) Percentage change based on audited financial statements and not the above rounded amounts.

(3) For the purpose of valuing liabilities, realized and unrealized gains and losses are amortized over five years.

Chairperson's Report



Gerald K. Bouey
Chairperson

We have just completed a watershed year in the long history of the Ontario teachers' pension plan. For the first time since the plan's creation more than 70 years ago, new legislation enabled us to broaden investments beyond non-marketable provincial debentures. We acted promptly — first, by expanding into high-yielding, short-term money market securities, such as treasury bills and bank deposits; then, later in the year, by purchasing stocks and bonds.

These were the first deliberate steps toward building a diversified investment portfolio that, under our new mandate, will contribute to making the pension plan fully funded. By diversifying investments, we believe the plan will generate a sufficient and reliable cash flow to provide Ontario's teachers with secure retirement income.

Board of directors
Overseeing the corporation's new mandate is a knowledgeable and enthusiastic group of directors, who contribute considerable depth and diversity of expertise.

The board of directors ensures

that the Teachers' Pension Plan Board fulfils the investment and administrative obligations set out in the *Teachers' Pension Act, 1989*, and complies with further requirements of the *Pension Benefits Act, 1987*.

The board of directors, which meets monthly, provides overall policy direction and approval, with day-to-day management delegated to the Chief Executive Officer and his staff.

B...
Three committees have been established to focus on areas of particular concern. Each committee is balanced between government and teacher representatives. The names of the committee members are listed at the end of this report.

The *Benefits Adjudication Committee* deals with appeals by plan members of staff decisions on such matters as pension eligibility and entitlements. The committee heard 17 appeals in 1990, mostly concerning teachers whose applications to purchase interrupted years in pension service had been denied. In two-thirds of these cases, staff decisions were upheld.

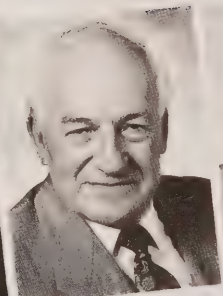
— The *Audit and Actuarial Committee* protects the plan's financial integrity by overseeing the work of internal and external auditors. It is also responsible for ensuring that the plan's liabilities are independently valued at least every three years.

— The *Investment Committee* sets the asset mix policy and investment guidelines, approves individual investments that exceed specified dollar limits, and monitors the overall investment performance. All directors of the board are members of this committee. Two further representatives are appointed by the Ontario Teachers' Federation.

J. Clarry



G. Cook-Bennett



D. Green



D. McAndless

Executive leadership

A priority in 1990 was to ensure that the Teachers' Pension Plan Board had the management leadership to pursue its broadened and more complex mandate. Our search for executive expertise culminated in August with the hiring of Claude Lamoureux as President and Chief Executive Officer. With 25 years' experience in the financial services industry in both Canada and the United States, he has proven experience in all aspects of investment management and actuarial and pension matters.

We also selected Bob Bertram, former Treasurer of Alberta Government Telephones, as Senior Vice-President of the new Investment Division.

Organizational change

During recent months, several experienced professionals were hired in the Investment Division to carry forward our assignment of developing a diversified investment portfolio.

At the same time, other fundamental organizational changes, including management realignments, have been made to enhance services to the current and retired teachers of Ontario.

C. E. Medland



L. Sullivan



M. Wilson



M. Hicks



G. Porter

We now have a well-structured and professionally staffed organization that has begun the task of moving the teachers' pension plan toward being fully funded.

Acknowledgements

On behalf of my fellow directors, I thank our plan members for their support and patience during a period of fundamental change in our organizational and business focus.

I also want to thank members of the staff for their commitment to the new goals of the Ontario Teachers' Pension Plan Board. The contribution of Dan McArthur, who led our predecessor organization for more than seven years and acted as chief executive officer of the new organization for the first half of 1990, was particularly valuable.

We appreciate the assistance of the Ministry of Treasury and Economics, which administered our investments during the first half of the year. Finally, we are grateful to Barry Gardiner and Joan MacCallum, members of the government's transition team, for assisting us with our new mandate.

On behalf of the board
of directors,

Gerald K. Bouey
Chairperson
May 1, 1991

Investment Committee

Gerald K. Bouey, former governor of The Bank of Canada. *Chairperson of the Board.*

John H.C. Clarry, counsel with McCarthy, Tétrault, barristers and solicitors.

Gail Cook-Bennett, Executive Vice-President of Bennecon Ltd., former economics professor at the University of Toronto and senior executive with the C.D. Howe Research Institute.

Duncan Green, former Director of Education for the Toronto Board of Education and Assistant Deputy Minister with the Ministry of Education. *Chairperson of the Benefits Adjudication Committee.*

***Doug McAndless**, former public school teacher and past president of the Ontario Teachers' Federation. *Chairperson of the Audit and Actuarial Committee.*

C. Edward Medland, former Chief Executive Officer of Wood Gundy Inc. *Chairperson of the Investment Committee.*

***Lynne Sullivan**, principal with William M. Mercer Limited and leader of the Mercer human rights and employment equity consulting practice in Canada.

***Margaret Wilson**, Secretary-Treasurer of the Ontario Teachers' Federation, past president of the federation, and former secondary school teacher.

***Martin Hicks**, investment consultant with extensive experience in the Canadian and U.S. investment industries, and former senior executive at Pru-Bache Securities.

***Gary Porter**, partner of Porter Hétu, certified general accountants, and former investment and trust manager with a major trust company.

*nominated by the Ontario Teachers' Federation

President's Report

In many respects, 1990 was a new beginning for the teachers' pension plan.

First, we assumed direct control of, and responsibility for, the combined assets of the Superannuation Fund and that part of the provincial government's Superannuation Adjustment Fund related to teachers' pensions.

Second, we began to hire investment professionals who will ensure that we diversify these assets in a prudent and orderly manner into a dynamic investment portfolio.

Third, we made a renewed pledge to bring about improvements in the way we deal with and care for our clients, the current and retired teachers of Ontario.

These changes reflect our new personality as an investment fund manager while reminding us that our *raison d'être* is to administer the pension plan to the highest professional standards possible in supplying members with an assured retirement income.

Organizational structure

We have organized our resources, which include approximately 280

staff members, to concentrate on two core businesses. One is to manage the investment of assets through the new Investment Division, which was inaugurated in October, 1990. The other is to provide members with benefits and pension services through our new Client Services Division, established in January, 1991. Assisting both divisions are five departments — finance, communications, human resources, law, and internal audit.

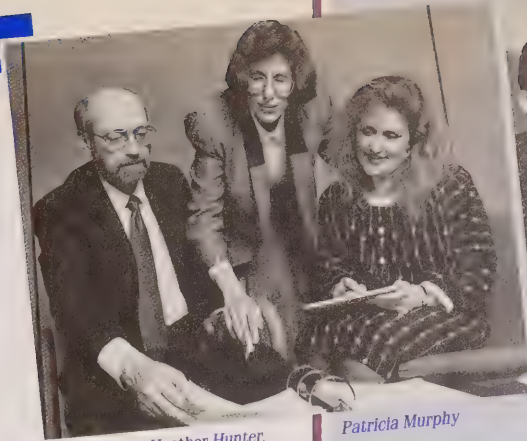
Investment strategy

Our strategy is to develop a balanced portfolio of assets that will produce optimum investment returns over time at a moderate level of risk. A prudent investment philosophy will protect the security of assets and emphasize reliability of income.

Over the long term, we see a portfolio that is two-thirds equity and one-third debt. The equity component will principally be shares in major corporations, but it will also include assets such as income-producing real estate. The main elements of the debt component are short-term money market investments, federal and provincial bonds, and high-quality mortgages.



Claude Lamoureux
President and Chief Executive Officer



Bob Bertram, Heather Hunter,



George Engman, Brian Muzyk

Bringing about a change in our asset mix is a formidable task. We began 1990 with net assets of \$18.5 billion, mostly non-marketable Ontario debentures. During 1990, approximately \$2.3 billion in new funds became available for investment. These funds are derived from:

- the pension contributions of teachers,
- the matching contributions of employers,
- government payments for the pre-1990 unfunded liability, and
- portfolio income, net of benefit payments.

By year end, \$3 billion was invested in the money market and Canada bonds, and the Canadian and U.S. stock markets. This left \$16 billion, or 84 per cent of investments, still in provincial debentures, indicating the magnitude of the challenge we face in changing the asset mix to create a balanced investment portfolio.

Voting policy

Our stock market investments mean that the pension board will be a voting shareholder in numerous corpora-

tions. Our votes will be exercised in the best interests of the plan.

Valuation of liabilities

A priority is to determine the size of the liabilities of the pension plan on January 1, 1990. We retained an independent actuary to prepare a going concern valuation, which has been submitted to the Treasurer of Ontario and Minister of Education in accordance with the *Teachers' Pension Act*.

The act states that the pension board is to file this initial statutory valuation with the Pension Commission of Ontario only after the minister and treasurer have advised us to do so.

The act requires the plan sponsor to make up the pre-1990 funding deficiency through special payments over the next 40 years.

Beginning in 1991, pension plans are required by the Canadian Institute of Chartered Accountants to determine management's best estimate of the cost of the future benefits for service already completed by members. The accounting valuation indicated that liabilities exceeded assets by \$3.6 billion. Further information is provided on page 14.

Investment Division

Bob Bertram, Senior Vice-President; former Treasurer of Alberta Government Telephones

Patricia Murphy, Vice-President, Fixed Income; former Vice-President of Financial Futures and Options at CIBC/Wood Gundy Inc.

Heather Hunter, Vice-President, Equities; former Investment Vice-President, Corporate Surplus Investments, at Confederation Life.

Brian Muzyk, Vice-President, Real Estate; previously Director of Investments with the Manitoba Teachers' Retirement Allowances Fund Board.

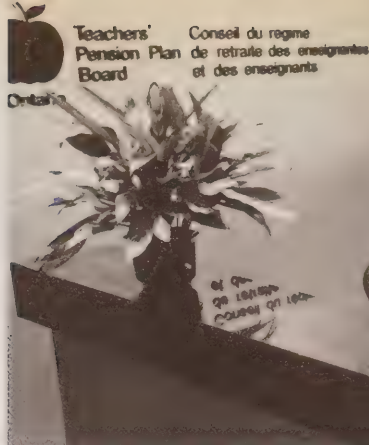
George Engman, Vice-President, Research and Development; former corporate and institutional investment consultant and North American Fund Manager for a Middle Eastern investment fund.

Lynn Patterson, Portfolio Manager, Canada Bonds; previously Vice President, Fixed Income, at CIBC/Wood Gundy Inc.

Rosemary Zigrossi, Manager, Investment Accounting; former Assistant Vice-President at Morgan Bank of Canada and a Chartered Accountant with Peat Marwick Thorne.



Lynn Patterson, Rosemary Zigrossi



C lient services

While our new role as investment manager of the teachers' pension fund is a major source of change, we have also taken steps to do a better job of providing services to members. Our new Client Services Division is under the leadership of Vice-President Bill Foster, who served with our predecessor organization for more than three years.

The main thrust of the division is to improve the ability of current and retired teachers to access the organization for information and service on pension matters. A member now deals with the same individual until a transaction is completed. We are currently conducting a customer survey to identify further areas where our services can be improved.

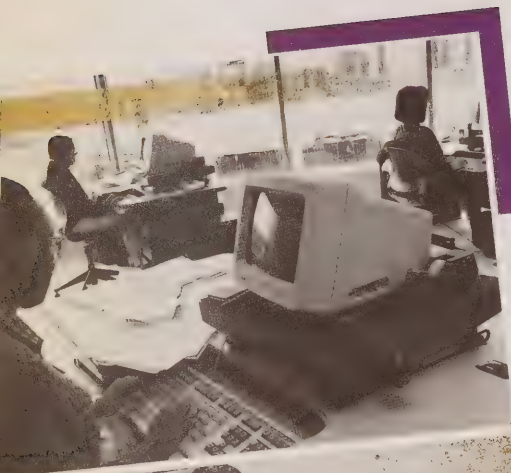
In 1990, 2,473 teachers retired, compared with 4,639 in the previous year. The 1989 figure included 2,243 teachers who took advantage of the final opportunity to retire early on unreduced pensions. Under this provision, teachers with at least 10 years' experience who were 55 years of age

or older could retire with an unreduced pension without the 90 factor (the normal requirement).

We expect approximately 2,700 applications for pension benefits in 1991. Increasing numbers of retirees are projected through the 1990s and the first decade of the new century. The typical teacher is 41 years' old and has 14 years' service.

In 1991, we expect a significant increase in applications from teachers with interrupted careers to purchase credited service to make up for time away from the classroom. Many teachers who have received refunds will repay them. Other teachers will choose to buy back time for absences for such reasons as pregnancy, out-of-province teaching, or working in business and industry. For applications made after 1991, teachers may have to pay the actuarial cost of the benefit.

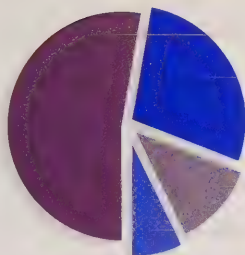
While teachers have this opportunity to increase their pensions, it will also increase future liabilities. As many as 30,000 teachers could apply for improved credits.



Maryanne McManus, Bob Breens, Managers, Client Services;
Bill Foster, Vice-President, Client Services;



Membership Profile*



Active Members

Women 53%

Men 28%

Pensioners

Women 12%

Men 7%

*excluding inactive teachers

A

Administrative costs

The cost of managing the pension plan increased by 30 per cent last year to \$20.3 million. Higher administrative expenditures reflected costs associated with preparing for our new role as an institutional investor, increased salaries and benefits for new and existing staff, a greater commitment to member communications, and an increased need for professional consulting and legal services.

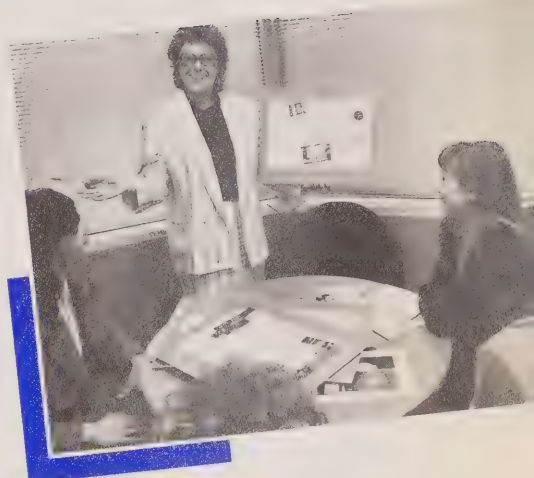
Expenditure levels are a concern and are being addressed. We have introduced new programs and systems to monitor and analyze the costs of all services we provide.

O

Outlook

It will take several years to implement our investment policy, and to achieve a balanced asset mix because of the size of the provincial debenture portfolio.

However, we are excited by the magnitude of the challenge we face, and by the opportunity to do a great job for both the teachers and people of Ontario.



Claude Lamoureux

President and Chief Executive Officer

May 1, 1991

Management Discussion and Analysis

The Ontario Teachers' Pension Plan Board functions as an investment company and a pension plan administrator. It is responsible for gathering the contributions of plan members and the plan sponsor, investing those contributions in diversified assets, managing the assets for long-term growth, and providing pensions to members. Plan members include 160,000 active teachers, 88,000 inactive teachers, and 39,000 pensioners. The plan sponsor is the Province of Ontario.

As an investment manager operating in the public marketplace, the pension board is committed to full disclosure of its investment activities and financial performance to plan members, the provincial government, and the investment and business communities. In this respect, the pension board is trying to follow the reporting standards of public companies.

Consequently, this annual report includes a Management Discussion and Analysis section that attempts to disclose and discuss financial material in a manner that enables our stakeholders to look at our performance through the informed eyes of management.

Historical perspective

During the first 72 years of its existence, the pension plan was restricted

by legislation to investing exclusively in Province of Ontario debentures. After considerable study, the government recognized in the late 1980s the merit of allowing certain public-sector pension plans to diversify their assets so they could improve their financial performance and move toward being fully funded.

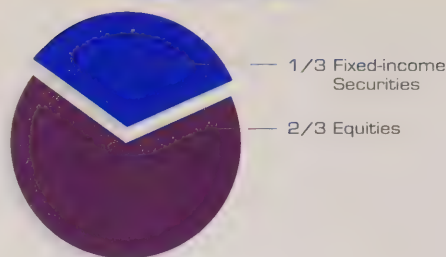
The process culminated in 1989 with legislative approval of the *Teachers' Pension Act* and the subsequent formation of the Ontario Teachers' Pension Plan Board to replace the Teachers' Superannuation Commission.

On January 1, 1990, we assumed a \$16-billion portfolio of non-marketable debentures. With original terms of 20 to 25 years, the last of these debentures are scheduled to mature in 2012. The debentures currently have a weighted-average coupon rate of 11.25 per cent.

General investment policy

The pension board endeavours to manage the plan so that it earns the best possible rate of return, consistent with a moderate level of risk. The basic need is to generate sufficient earnings above the inflation rate to cover the costs of indexed pension benefits. Teachers' pension payments are linked

Asset Mix Goal



to the Consumer Price Index to a maximum inflation adjustment of eight per cent in a single year, with any excess carried forward.

In the long term, we have established as our investment goal a real rate of return (i.e., after allowing for inflation) of 4.5 per cent per annum on a five-year moving average. Our expectation is to meet this challenging goal once the portfolio has achieved an acceptable asset mix.

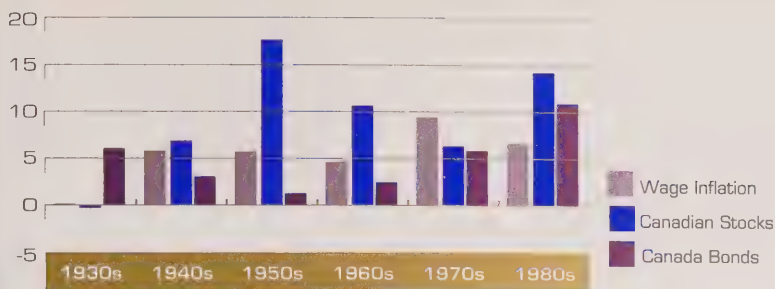
Short-term investment strategy

In 1990, approximately \$2.6 billion was available for investment. These funds came from three sources — almost \$2 billion in income from the investment portfolio, about \$350 million from debenture maturities, and the balance from the contributions of plan members and the sponsor, net of pension payments.

During the first nine months of 1990, available funds were invested in the short-term money market. The initial strategy was to have liquid assets available for re-investment in other assets when professional investment managers were on staff later in the year. The strategy proved fortuitous; interest rates on treasury bills and bank deposits were high for much of 1990 and outperformed stocks and bonds.

Historical Comparison of Inflation and Return on Investment in Canada

(per cent)



Once professional investment managers were on staff, we began to diversify into stocks between mid-October and year end, and into bonds during December. Again, the timing was fortuitous. Interest rates moderated in the final quarter of the year and stock markets began to rally.

By year end, we had \$519 million invested in Canadian shares (three per cent of invested assets at market value) and \$805 million in U.S. shares (four per cent). The higher level of U.S. investment reflects the ability of the much larger U.S. market to absorb purchases without disruption.

Canada bonds, valued at \$293 million, represented two per cent of invested assets, and money market investments totalled \$1.4 billion (seven per cent). Ontario debentures still overwhelmed the asset mix at \$16 billion, or 84 per cent of invested assets.

In 1990 we retained three external fund managers to purchase shares in companies that make up the TSE 300 Index on the Toronto Stock Exchange and another fund manager to assemble a portfolio that mirrors the S&P 500 Index on the New York Stock Exchange.

These indices monitor the share performance of well-established corporations in a cross-section of the economy.

Investing in a market index fund is an efficient way to assemble a large portfolio of shares. Acquiring an index fund also recognizes that it is extremely difficult for professional managers to "beat the market" with any consistency over the long term. These index funds will form the core of our portfolio.

The value of the debentures was written up by \$1.452 billion on January 1, 1990, reflecting a change in the basis of valuation from cost to market. Rising interest rates during 1990 reduced the imputed market value of the provincial debentures by over \$950 million. However, the drop in market value recorded in 1990 was recouped in the first quarter of 1991 as interest rates declined.

Because of the long-term nature of our portfolio, each one per cent rise in the level of interest rates decreases the market value of the debenture portfolio by seven per cent. Conversely, each decrease of one per cent in the interest rate increases the market value by seven per cent. Fluctuations in interest rates will continue to cause large changes in the market value of the debentures and in the value of the portfolio.

We are developing a staff capability as an active investor in the shares of individual Canadian companies that

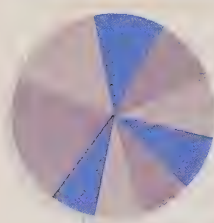
we believe offer fundamental value and exceptional long-term growth potential. This portfolio will complement the TSE 300 Index fund and could improve long-term rates of return.

Investments at December 31, 1990

(millions)

	Market	Cost
Province of Ontario debentures	\$15,952	\$15,468
Money market securities	1,385	1,385
U.S. stocks	805	773
Canadian stocks	519	505
Canada bonds	293	294
	\$18,954	\$18,425

1990 Canadian Stocks by Sector



Financial Services	15.8%
Oil and Gas	11.4%
Gold and Silver	10.3%
Industrial Products	10.1%
Utilities	8.7%
Consumer Products	8.3%
Metals and Minerals	7.4%
Merchandising	7.1%
Other*	20.9%

*includes communications, management companies, transportation, paper and forest products, pipelines, and real estate and construction

Long-term investment strategy

Over the long term, we will assemble a diversified portfolio of assets that balances different risk profiles. These assets will be two-thirds equities and one-third debt securities.

Equity involves the ownership of assets, such as corporate shares and real estate, that offer both income growth and capital value appreciation. The performance of equities can vary greatly in the short term, although these assets have historically produced reliable long-term growth. In general, we will focus on the long-term performance of our investments which is required to meet our long-term liabilities, i.e. fully indexed pensions.

The following lists our equity portfolio ranges by asset class. In accordance with the policies of the Ontario government, and with the approval of the Ontario Teachers' Federation, our portfolios exclude the shares of corporations with significant investments in South Africa.

— Canadian equities - 20 to 50 per cent of total assets

Stock markets are volatile in the short term and can produce negative returns within a single year. However, the shares of major cor-

porations tend to produce rising dividend income and capital appreciation over longer economic cycles. This component of the portfolio will take time to achieve because the available capitalization of the companies listed on the TSE 300 is less than \$160 billion.

— U.S. equities - 5 to 10 per cent

The U.S. market has a much wider choice of shares in major corporations than is the case in Canada. For example, the S&P 500 has a capitalization of \$2.2 trillion. Early in 1991, we were within the target range for U.S. shares. This component will grow in step with the overall expansion of our asset base.

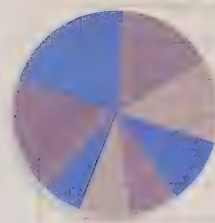
— Off-shore equities - up to 10 per cent

Opportunities exist to benefit from long-term growth in companies elsewhere in the world. This year, we will acquire shares in European, Australian, and Far Eastern firms through external fund managers.

— Real estate - 5 to 20 per cent

Income-producing real estate, such as office buildings, retail malls, and industrial properties, offer superior long-term investment returns. Rental income nor-

1990 U.S. Stocks by Sector



Consumer Non-Durables	21%
Utilities	15%
Energy	13%
Health	10%
Finance and Building	7%
Capital Goods	6%
Retail	6%
Other*	18%

*includes consumer durables, office equipment, chemicals, forest, metals, and transportation

mally comprises 70 per cent of total investment performance, with capital growth representing 30 per cent. Real estate, however, has low liquidity compared with stocks and bonds.

— Other equity positions - up to 5 per cent

We will consider investments in private corporations, resource properties, and special situations. However, this component of our asset mix is not a high priority and will take several years to acquire.

Debt securities have fixed rates of income for fixed terms, although their market value fluctuates in response to prevailing interest rates.

— Money market investments - up to 20 per cent

These are short-term debt securities, such as treasury bills and bank deposits. Their principal attraction is liquidity.

— Long-term debt securities - up to 30 per cent

These include federal and provincial bonds, as well as index-linked mortgages. Fixed-income investments are less volatile than stocks and produce more predictable long-term returns.

1990 Rates of Return by Asset Class (based on market value)

	%
Province of Ontario debentures	5.36
Equities	9.20*
Debt securities	13.20
Overall	5.60

*from October to December only

Changes in accounting policies

The Canadian Institute of Chartered Accountants (CICA) has issued generally accepted accounting principles (GAAP) for pension plans, effective in fiscal 1991. We have decided to comply with these standards, contained in section 4100 of the CICA Handbook, a year in advance.

The key requirement is to provide best estimate of the plan's accounting liabilities at year end to assist plan members in assessing the overall security of their future pension benefits. This has been provided in our 1990 financial statements; prior years' statements focused mainly on the net assets. The accounting valuation is discussed later in this report.

The new GAAP also requires investments to be valued at market instead of cost. This has been done in our 1990 financial statements. Although the 1989 results remain at cost. Caution is required, therefore, in making line-by-line comparisons between the 1989 and 1990 financial statements.

Financial performance - 1990

The pension plan performed relatively well in 1990, registering on a market value basis a 5.6 per cent rate of return. This compared with an average rate of return of minus 0.3 per cent for balanced pension funds and minus 2.6 per cent for a composite index of diversified assets, according to information compiled by TPF&C Limited.

The following analysis is based on the results as presented in the 1990 audited financial statements.

The plan began 1990 with net assets of \$18.5 billion, after adjusting the historical cost of the provincial debentures to their estimated market value.

During the year, \$3.3 billion of income was earned. The largest portion was investment income of nearly \$2 billion. For the first time, stocks and bonds contributed to investment income, although 90 per cent continued to come from Ontario debentures.

The second principal source of income was plan contributions of \$1.3 billion. This included a \$300-million increase in employee and employer contributions largely as a result of the *Teachers' Pension Act* which, beginning in 1990, integrated that part of the government's Superannuation Adjustment

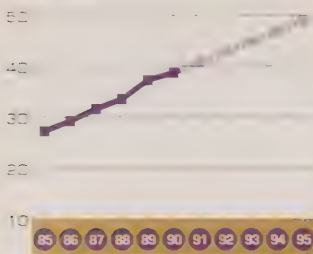
Fund related to teachers into the pension plan along with the indexation benefits. The act also provided for a one per cent increase in the contribution rate. The 1990 contributions included \$187 million from the Ontario government as an interim payment for the pre-1990 unfunded liability.

Expenditures increased during the year as a result of higher payments for retirement, disability, and survivor pensions. These totalled \$742 million, a \$307-million increase over 1989. This is largely due to the plan assuming full responsibility in 1990 for paying cost-of-living increases, which had previously been paid by the provincial government out of the Consolidated Revenue Fund and that portion of the Superannuation Adjustment Fund related to teachers. The increase in benefits also reflected growth in the number of pensioners.

Fluctuations in the market prices of debentures and stocks caused the market value of the investment portfolio to decrease by \$926 million during 1990. However, because we had written up the value as of January 1st by \$1.452 billion, the value at year end was higher than it would otherwise have been. While the debentures cannot be sold, their value can be determined by dis-

Number of Pensioners

(thousands)



Average Unreduced Pension

(\$ thousands)



counting cash flow at the yield that could be obtained from similar Ontario bonds. The discounting of future cash flows resulted in a reduction of market value because interest rates rose during the year.

When benefit payments and other costs, plus the decline in the market value of assets, are deducted from investment income, contributions, and other revenues, the plan concluded the year with \$1.6 billion of new income to meet pension obligations. When this is added to the net assets at the start of the year, the plan completed 1990 with net assets available to meet future benefits of \$20.1 billion.

Liquidity and asset/ liability management

Pension plans are prohibited from borrowing for investment purposes, although they can incur loans for up to 90 days for operating purposes. Annual contributions and other income are well in excess of annual pension payments and other liabilities, and are expected to remain so for many years. Our liquidity requirements are mainly for meeting the payment of pension benefits, the costs of the investment program, and regular administrative costs.

Initial funding valuation

When we assumed responsibility for the teachers' pension plan, it was known that the value of assets in the plan plus the value of future contributions at current rates were insufficient to meet the future pension benefits of existing plan members.

The *Teachers' Pension Act* required the pension board to retain an independent actuary to determine the statutory liabilities on January 1, 1990, and the contributions required from the provincial government to eliminate the past deficiency through special payments over a 40-year period. Because of the method selected to amortize this deficiency, it will grow in dollar value over many years before decreasing.

In addition, the *Teachers' Pension Act* requires the actuary to determine a contribution rate that teachers should pay, and the government as the plan sponsor should match, to ensure the plan can properly support future benefits and cover related administrative costs.

Last year, the pension board retained William M. Mercer Limited, an actuarial consulting firm, to prepare the valuation and to determine an appropriate contribution rate. The

firm has submitted its report to the Treasurer of Ontario and the Minister of Education.

Ongoing valuations

On a continuing basis, two actuarial valuations of the plan will be necessary. One is the statutory valuation required by the *Teachers' Pension Act* and the *Pension Benefits Act, 1987*, which governs all pension plans in Ontario. The legislation calls for a funding valuation at least every three years. The other valuation is the new requirement of the CICA.

The statutory valuation takes into account current assets and current liabilities, and the future contributions and benefits of existing members. It tries to anticipate the value of these assets and liabilities over the lives of current members. The statutory valuation uses a "conservative" approach, as required by legislation. This means it is cautious in making assumptions about future events and trends.

The accounting valuation examines how much the plan needs at year end to cover the cost of future benefits already earned by members, based on the service completed. Unlike the statutory valuation, it does not take

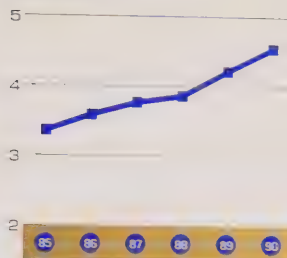
New Pensioners

(thousands)



Number of Survivor Pensions

(thousands)



into consideration future contributions and benefits to be earned by members. The accounting valuation uses management's "best estimate" assumptions as recommended by the CICA. It is intended to be more realistic about the long-term future than the statutory valuation.

The accounting valuation estimated the pension plan's deficiency at the 1990 year end as \$3.6 billion. Because it uses more conservative assumptions and different calculations, the statutory valuation at the same date will produce an estimate of the unfunded liability that will be higher.

Short-term outlook

Our short-term challenge is to develop a diversified investment portfolio that is balanced by asset class.

In 1991, we expect to have \$2.5 billion available for investment. Of this, only \$19 million will come from the maturities of provincial debentures.

In keeping with our investment goals, we will increase our holdings of Canadian stocks. The U.S. stock portfolio is already within our asset mix range and will grow in step with the total asset base. We will enter the

international market through external fund managers later in the year.

Our holdings of Canadian and U.S. bonds will increase during the year, and we hope to make our first investments in real estate through the purchase of equity ownership in income-producing properties.

Longer-term outlook

Our investment program will gain momentum in the next few years, requiring diligence in investing large amounts of capital in a variety of investment vehicles. In 1992, for example, two maturing provincial debentures will provide \$500 million of new funds. We expect to have more than \$3 billion available for investment in 1992 and in each subsequent year of this decade.

Our long-range challenge is to invest available funds effectively so that the portfolio can provide pensions to plan members at a reasonable cost to them and the plan sponsor. Finally, we will ensure that our clients experience a level of service second to none.

Actuaries' Opinion

We have performed an actuarial valuation of the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at January 1, 1990, and projected these liabilities to December 31, 1990, for inclusion in the Plan's financial statements. We have also valued the Plan's assets as at December 31, 1990, and estimated the unfunded liability at that time.


The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at January 1, 1990;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1990, as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act, 1989*, and the *Pension Benefits Act, 1987*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods used are consistent with sound actuarial principles, and that the assumptions are appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with generally accepted actuarial principles.



Lester J. Wong, F.C.I.A.



Malcolm P. Hamilton, F.C.I.A.

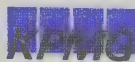
Financial Reporting Responsibility

The financial statements of the Ontario Teachers' Pension Plan have been prepared by management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on management's best estimates and judgement. All other financial and operating data included in the Annual Report are consistent, where applicable, with information contained in the financial statements.

Management maintains financial and operating control systems designed to provide reasonable assurance that the financial information is reliable, that the Plan's assets are safeguarded and controlled and that the transactions are in accordance with the *Teachers' Pension Act*.

The Plan's external auditors, Peat Marwick Thorne, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards. Their examination included a review and evaluation of the control systems and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly.

Ultimate responsibility for the financial statements rests with the Board of Directors. This responsibility is delegated to the Audit and Actuarial Committee, which is composed of four Directors of the Board. The Committee meets regularly with management and the auditors to ensure that responsibilities are properly discharged. The auditors have unrestricted access to the Committee to raise any matters. The Committee has reviewed these financial statements with management and the auditors and has reported to the Board. The Board has approved the statements.



Peat Marwick Thorne

Auditors' Report to the Administrator

We have audited the statement of net assets available for benefits of the Ontario Teachers' Pension Plan as at December 31, 1990 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Plan available for benefits as at December 31, 1990 and the changes in its net assets available for benefits for the year then ended in accordance with generally accepted accounting principles.

A handwritten signature in blue ink, reading 'Claude R. Lamoureux'.

Claude R. Lamoureux
President and
Chief Executive Officer

A handwritten signature in blue ink, reading 'Shirley D. Heath'.

Shirley D. Heath, C.A.
Manager, Finance

A handwritten signature in blue ink, reading 'Peat Marwick Thorne'.

Chartered Accountants
Toronto, Canada
April 19, 1991

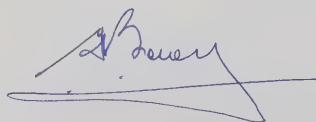
Statement of Net Assets Available for Benefits

as at December 31, 1990

(S000's)	1990	1989
Assets		
Investments (notes 2 and 4)		
Province of Ontario debentures	15,951,972	15,810,450
Money market securities	1,385,161	280,674
Stocks	1,323,477	
Bonds	293,170	
	18,953,780	16,091,124
Receivable from Province of Ontario		
Employer contributions	848,701	660,287
Interest on employer contributions	96,182	77,594
	944,883	737,881
Receivable from employers		5,401
Accrued interest and dividends	502,462	464,384
Cash		27,210
Total assets	20,401,125	17,326,000
Liabilities		
Bank indebtedness	2,534	
Accounts payable and accrued liabilities	13,397	11,381
Payable to brokers	260,862	226,720
Total liabilities	276,793	238,101
Net Assets Available for Benefits	20,124,332	17,087,899

On behalf of the Board

Chairperson



Board Member



Statement of Changes in Net Assets Available for Benefits

for the year ended December 31, 1990

(\$000's)	1990	1989
Increase in Assets		
Investment income		
Province of Ontario debentures	1,762,762	1,514,015
Cash and money market securities	188,036	17,722
Stocks	5,896	
Bonds	1,022	
	1,957,716	1,531,737
Contributions (note 7)	1,300,448	781,285
Repayments of refunds	13,342	9,231
Transfers from other plans	19,262	8,544
Total increase in assets	3,290,768	2,330,797
Decrease in Assets		
Decrease in market value of investments	926,357	
Benefits paid (note 8)	741,938	435,098
Refunds of contributions	11,180	7,158
Transfers to other plans	6,816	5,778
Administration expenditures (note 9)	20,303	15,566
Total decrease in assets	1,706,594	463,600
Increase in Net Assets	1,584,174	1,867,197
Net Assets Available for Benefits at Beginning of Year	17,087,899	13,639,352
Adjustment of investments to market value at beginning of year (note 2)	1,452,259	
Transfer of net assets from Superannuation Adjustment Fund account (note 3)		1,581,350
Net Assets Available for Benefits at End of Year	20,124,332	17,087,899

Notes to Financial Statements

for the year ended December 31, 1990

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Ontario Teachers' Pension Plan (the Plan) as a separate financial reporting entity, independent of the sponsor and Plan members. They are prepared to assist Plan members and others in assessing the overall benefit security of the Plan.

(b) Investments

Investments are stated at market value in 1990 and are recorded as of the date of the trade (see note 2). Province of Ontario debentures, which are not marketable, are recorded at estimated market values calculated by discounting cash flows based on year-end market yields of comparable securities. Money market securities are carried at amortized cost, which approximates market value. Bonds and stocks are valued at year-end market prices.

The difference between the market value and the average cost of the investments is reflected in the statement of changes in net assets available for benefits.

Gains and losses on the sale of investments are determined using average cost and are credited or charged to investment income. Dividends are accrued as of the ex-dividend date.

(c) Contributions from the Province of Ontario

Special and interim payments from the Province of Ontario (the Province) on the unfunded liability are recorded in the year in which they are received.

(d) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at year end. Investment income is translated at the average monthly rate.

(e) Benefits

Payments for benefits, refunds and transfers are recorded in the year in which they are made.

1. DESCRIPTION OF PLAN

The following description of the Plan is a summary only. For more complete information, reference should be made to the Teachers' Pension Act, 1989 (the Act) and the Pension Benefits Act, 1987.

(a) General

The Plan is a contributory defined benefit pension plan sponsored by the Province and is mandatory for most persons who are eligible to be Plan members. Contributions are made by active members of the Plan, designated private schools and organizations and the Province. The Plan is registered with the Pension Commission of Ontario: registration #C008450.

(b) Funding

Plan benefits are funded by contributions from active members, designated employers and the Province. The determination of the value of the benefits is made on the basis of actuarial valuations (see note 6). Subsection 5(3) of the Act provides that the Province pay any annual cash flow deficiencies after the disposal of all saleable Plan assets.

(c) Retirement Pensions

A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. When the sum of a member's age and service equals 90, an unreduced pension is available at any age.

(d) Disability Pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death Benefits

Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of an immediate or deferred pension and/or a lump-sum payment.

(f) Withdrawals from the Plan

Subject to the lock-in provisions, withdrawal refunds and transfers, with interest, are available when a member ceases to be employed in education.

(g) Income Taxes

The Plan is a Registered Pension Plan as defined in the Income Tax Act and consequently, the Ontario Teachers' Pension Fund (the Fund) is not subject to income taxes. The Plan's registration number is 0345785.

(h) Escalation of Benefits

Pension benefits are adjusted for inflation from 1975 at 100 per cent of the Consumer Price Index, subject to a limit of 8 per cent in any one year with any excess carried forward. Some pension benefits for periods before 1975 were increased pursuant to Orders in Council issued prior to 1976.

CHANGE IN ACCOUNTING POLICIES

The accounting policies and the basis of presentation for these financial statements were changed in 1990 to reflect the early adoption of generally accepted accounting principles for pension plans. These standards are mandatory for general purpose financial statements for the Plan for 1991. The changes have been applied on a prospective basis and are as follows:

- (a)** The basis of presentation for the financial statements, including the notes, has changed from reporting primarily the net assets of the Fund and related transactions to including information on the associated pension obligations of the Plan.

- (b)** The method of valuation of Province of Ontario debentures has changed from cost to market value.

At January 1, 1990 the excess of market value over cost of the debentures was \$1.452 billion. The corresponding excess at December 31, 1990 was \$.484 billion. The change during 1990 of \$.968 billion, together with market value changes of other investments acquired during the year, is included in the statement of changes in net assets available for benefits.

3. TEACHERS' PENSION ACT, 1989

Effective December 31, 1989 the Ontario legislature changed the legislation governing the Plan. The Act repealed the former legislation but continued the plan set out in the former act, including the related benefits provided under the Superannuation Adjustment Benefits Act. The terms of the Plan are set out in the Act and Schedule 1. The Schedule became effective January 1, 1990.

The Act also named the Ontario Teachers' Pension Plan Board (the Board) as the plan administrator. The Teachers' Superannuation Fund was continued under a new name, the Ontario Teachers' Pension Fund, as the pension fund maintained to provide plan benefits.

Pursuant to the Act, the assets and liabilities of the Superannuation Adjustment Fund account were transferred to the Plan as of December 31, 1989. The net assets were transferred by the issuance of Province of Ontario debentures in the amount of \$1.581 billion. The net assets available for benefits as of December 31, 1989 include these debentures. The related changes in net assets for 1989 for this account were reported on as a separate entity by the Provincial Auditor of Ontario and are not included in the 1989 comparative figures (see note 12).

The Act requires the investment of assets to meet the obligations of the Plan. Investment in Province of Ontario debentures is no longer required. The Act also increased by 1 per cent the rates of contribution payable by both members and their employers.

Notes to Financial Statements

for the year ended December 31, 1990

4. INVESTMENTS

	(\$000's)		
	1990	1989	
	Market Value	Cost	Cost
Province of Ontario debentures			
Maturing from:			
1990-1995	1,009,590	1,067,286	1,409,967
1996-2000	2,502,880	2,569,150	2,569,150
2001-2005	4,261,094	3,997,833	3,997,833
2006-2010	6,937,676	6,628,500	6,628,500
2011-2012	1,240,732	1,205,000	1,205,000
	15,951,972	15,467,769	15,810,450
Money market securities			
Treasury bills and bankers' acceptances	1,313,161	1,313,161	262,174
Term deposits	72,000	72,000	18,500
	1,385,161	1,385,161	280,674
Stocks			
Canadian	518,509	504,423	
U.S.	804,968	773,317	
	1,323,477	1,277,740	
Bonds - Canadian	293,170	294,281	
	18,953,780	18,424,951	16,091,124

The weighted-average coupon rate at year end of the Province of Ontario debentures based on cost is 11.25 per cent for 1990 and 1989.

5. OBLIGATIONS FOR PENSION BENEFITS

The present value of accrued pension benefits was determined in accordance with generally accepted accounting principles for pension plans using the projected benefit method prorated on service and the Board's best estimate assumptions. The actuarial method and assumptions differ from those used in the determination of the pension obligations for funding purposes as described in note 6. An actuarial valuation was made as of January 1, 1990, by William M. Mercer Limited, a firm of consulting actuaries, and was then extrapolated to December 31, 1990.

The actuarial present value of benefits as at December 31 and the principal components of changes in actuarial present values during the year were estimated to be:

	1990
Actuarial present value of accrued pension benefits at beginning of year	21,912,000
Interest accrued on benefits	2,309,000
Benefits accrued	930,000
Benefits paid	(760,000)
Actuarial present value of accrued pension benefits at end of year	24,391,000

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	%
Asset rate of return	10.50 for 10 years 9.25 thereafter
Salary escalation rate	6.00
Inflation rate	4.50

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits). This value is obtained by adjusting market values to recognize any difference between the actual and expected returns on the Fund uniformly over five years.

The deficiency of the actuarial value of net assets over the actuarial present value of accrued pension benefits for accounting purposes at year end was as follows:

	(\$000's)
Market value of net assets available for benefits	20,124,000
Market value changes not reflected in actuarial value of net assets	709,000
Actuarial value of net assets available for benefits	20,833,000
Actuarial present value of accrued pension benefits	24,391,000
Deficiency of actuarial value of net assets over actuarial present value of accrued pension benefits	3,558,000

6. FUNDING POLICY

In accordance with the Act, active members are required to contribute 8.9 per cent of their salary to the Plan.

The Province is required to provide the balance of the funding necessary to ensure that benefits will be fully provided for at retirement, based on a going concern valuation of the Plan as at January 1, 1990. This valuation prepared in accordance with the requirements of the Act and the Pension Benefits Act will, by the nature of the assumptions used, produce an unfunded actuarial liability that is higher than the deficiency determined for accounting purposes as described in note 5.

The unfunded actuarial liability disclosed by this initial valuation will be liquidated by the Province over the 40 years commencing January 1, 1990, by special payments. These monthly payments are estimated as a constant percentage of the projected future earnings upon which benefits are calculated over the next 40 years for all active members of the Plan during that time.

Commencing January 1, 1990, and until the initial valuation is approved by the Pension Commission of Ontario (the Commission), the Province is required to make monthly payments as set out in the Act. Differences between the payments made and those required for this time period will be made up by the Province, with interest, within 15 months of the Commission's approval of the initial valuation. Payments made by the Province during 1990 totalled \$187.3 million.

The Province may prepay the interim monthly payments and the special payments, with the appropriate adjustment for interest.

The Act also requires the determination in the initial valuation of the contribution rate which ensures that future contributions cover future benefits and expenses. For a material difference in the contribution rate, the Lieutenant Governor in Council will amend the Plan.

Any change to the funded status of the Plan disclosed by future going concern valuations will be shared by the Province and certain employers. The Act also provides mechanisms for the alteration of this arrangement if the Province's responsibility for the Plan is changed to one of a joint or sole responsibility assumed with or by the members respectively.

The initial actuarial valuation for funding purposes as of January 1, 1990 has been prepared by William M. Mercer Limited. The valuation is to be filed with the Commission only after the Minister of Education and the Treasurer of Ontario agree to its filing.

7. CONTRIBUTIONS

	(\$000's)	
	1990	1989
Members - for current service	506,704	351,741
- for optional credit	18,639	19,404
Province of Ontario		
- current service		
(including interest of \$74,782; 1989- \$57,193)	579,483	404,280
- interim payments on unfunded liability	187,275	
Other employers		
- for current service	8,347	5,860
	1,300,448	781,285

8. BENEFITS PAID

	(\$000's)	
	1990	1989
Benefits		
Retirement pensions	673,536	588,129
Disability pensions	20,113	19,037
Death benefits		
- survivor pensions	44,420	38,328
- lump-sum payments	3,869	617
	741,938	646,111
Less recovery from Province of Ontario		
Consolidated Revenue Fund		122,224
Superannuation Adjustment Fund account		88,789
		211,013
Benefits paid	741,938	435,098

Notes to Financial Statements

for the year ended December 31, 1990

9. ADMINISTRATION EXPENDITURES

	(\$000's)	
	1990	1989
Salaries and benefits	11,246	8,653
Professional consulting services	1,465	897
Office rental	1,340	1,338
Operating & maintenance costs	1,335	1,053
Postage, distribution and advertising	733	446
Office and computer equipment	604	568
Printing and stationery	558	346
Publications & external communications	542	352
Data processing services	514	460
Actuarial services	331	224
Training and development	260	130
Custodial fees	240	
Telecommunications	218	204
Legal fees	181	18
Board and committee remuneration	148	96
Travel	129	108
Audit fees	82	78
Translation services	82	63
Communications consulting services	80	416
Bank services	72	62
Investment management fees	55	
Other	88	54
	20,303	15,566

10. CONTINGENCY

A claim has been made against the Plan because of corrective steps taken by the Board in September 1986 in order to conform to a legal interpretation of the Act. These steps have resulted in the reduction of approximately 1,500 pensions on a prospective basis. The Supreme Court of Ontario has agreed with the Board's interpretation with respect to this claim, but the claimant has appealed. The outcome of the appeal cannot be reasonably determined at this time. Accordingly, no provision for it has been made in the financial statements. Any settlement will be recorded in the year it is made.

11. COMMITMENTS

The Plan is committed under a lease for office premises to the following minimum lease payments:

	(\$000's)
1991	1,344
1992	1,344
1993	1,791
1994	1,791
1995	1,791
1996 to 1997	3,581
	11,642

12. COMPARATIVE FIGURES

The 1989 comparative figures for the statement of net assets available for benefits include the net assets of the Superannuation Adjustment Fund account which were transferred to the Plan as of December 31, 1989. The comparative figures for the statement of changes in net assets do not include the 1989 transactions for this account since the transfer occurred at the end of 1989.

Beginning in 1990, the Act has integrated the Superannuation Adjustment Fund account provisions with the other Plan provisions. The 1990 figures, therefore, include the transactions of the integrated Plan.

Certain comparative figures have also been reclassified to conform with the financial statement presentation adopted for 1990.

Five-Year Financial Review

for the year ended December 31

[in millions of dollars]

1990⁽¹⁾ 1989 1988 1987 1986

CHANGES IN NET ASSETS

Increase in Assets

Investment income	1,958	1,532	1,344	1,166	1,022
Contributions					
Members - current service	507	352	321	290	272
- optional credit	7	6	5	6	6
- interest on optional credit	12	13	8	10	11
Province of Ontario					
- current service	504	347	314	287	266
- interest on current service	75	57	52	46	44
- unfunded liability	187				
Other employers					
- current service	8	6	5	5	5
	1,300	781	705	644	604
Other	33	18	19	13	9
	3,291	2,331	2,068	1,823	1,635

Decrease in Assets

Decline in market value of investments ⁽¹⁾	926				
Benefits paid	742	435	361	300	242
Administration expenditures	20	16	16	10	7
Other	19	13	8	13	21
	1,707	464	385	323	270
Increase in Net Assets	1,584	1,867	1,683	1,500	1,365

NET ASSETS

Investments ⁽¹⁾	18,954	16,091 ⁽³⁾	12,540	10,959	9,548
Cash and receivables	1,447	1,235	1,110	1,007	916
Liabilities	(277)	(238)	(11)	(10)	(8)
Net Assets	20,124	17,088	13,639	11,956	10,456

⁽¹⁾ Investments are valued at market in 1990, at cost in prior years.⁽²⁾ The Superannuation Adjustment Fund (SAF) account transactions have been reflected in the 1990 figures.⁽³⁾ The net assets for 1989 include net assets from the SAF account transferred at December 31, 1989.

Schedule of Province of Ontario Debentures

as at December 31, 1990

(in millions of dollars)		1990 Holdings		1990 Maturities
Maturity Date	Coupon %	Market Value	Cost	Cost
1991-1995	6.00 - 6.99	417	454	
	8.00 - 8.99	182	195	
	9.00 - 9.99	148	152	
	10.00 - 10.99	197	202	189
	11.00 - 11.99	65	64	154
		1,009	1,067	343
1996-2000	7.00 - 7.99	102	120	
	8.00 - 8.99	399	458	
	9.00 - 9.99	954	1,026	
	10.00 - 10.99	13	14	
	11.00 - 11.99	423	421	
	12.00 - 12.99	131	121	
	13.00 - 13.99	153	137	
	14.00 - 14.99	124	107	
	16.00 - 16.99	204	165	
		2,503	2,569	
2001-2005	9.00 - 9.99	594	646	
	10.00 - 10.99	479	502	
	11.00 - 11.99	563	549	
	12.00 - 12.99	1,345	1,206	
	13.00 - 13.99	873	760	
	14.00 - 14.99	407	335	
		4,261	3,998	
2006-2010	10.00 - 10.99	2,910	2,996	
	11.00 - 11.99	2,316	2,253	
	12.00 - 12.99	467	420	
	13.00 - 13.99	17	15	
	15.00 - 15.99	1,228	945	
		6,938	6,629	
2011-2012	10.00 - 10.99	109	110	
	11.00 - 11.99	1,132	1,095	
		1,241	1,205	
		15,952	15,468	343

Investments in Corporate Shares

Greater Than \$5 Million Canadian

as at December 31, 1990

(at market value)

Enterprises	Designation	Number of Shares	\$ Cdn. (thousands)
Alcan Aluminum Ltd.	Common	565,900	12,733
American Barrick Resources Corp.	Common	461,700	11,716
American Home Products Corporation	Common	291,300	17,787
American Information Technologies Corp.	Common	80,200	6,211
American International Group Inc.	Common	66,500	5,932
American Telephone and Telegraph Co.	Common	342,500	11,972
Amoco Corp.	Common	151,600	9,213
Atlantic Richfield Company	Common	49,500	7,100
Bank of Montreal	Common	351,300	10,232
Bank of Nova Scotia, The	Common	407,300	5,040
BCE Inc.	Common	622,800	24,601
Cell Atlantic Corp.	Common	121,600	7,566
CellSouth Corp.	Common	147,000	9,338
Coaling Company	Common	116,800	6,149
Canadian Imperial Bank of Commerce	Common	532,800	14,186
Canadian Pacific Ltd.	Ordinary	768,500	15,178
Canadian Tire Corp. Ltd.	Common	542,400	11,119
Coca-Cola Co.	Common	207,700	11,206
Dow Chemical Co.	Common	145,500	8,019
Eastman Kodak Company	Common	121,200	5,854
Exxon Corp.	Common	633,700	38,051
General Electric Co.	Common	276,800	18,427
General Motors Corp.	Common	182,900	7,295
ITE Corporation	Common	233,700	7,931
Infasco Ltd.	Common	289,200	7,989
Imperial Oil Ltd.	Class A	176,800	10,365
Ieco Limited	Common	390,000	11,459
International Business Machines Corp.	Common	183,100	24,007
Idlaw Inc.	Class B	551,400	11,786
Ingleton Hunter Ltd.	Common	664,600	6,397
Ingersoll & Co. Inc.	Common	355,100	37,031
Inlco Corp.	Common	136,100	9,159
Inlco Corporation Ltd.	Common	339,700	8,747
Inlco Inc.	Common	345,900	5,794
Inlco Telecom Ltd.	Common	435,800	14,186
Inlco Corporation of Alberta	Common	1,029,000	8,875
Inlco Telesis Group	Common	121,300	6,369
Inlco, Inc.	Common	288,300	8,697
Inlco Morris Companies Inc.	Common	291,600	17,509
Inlco Dome Inc.	Common	802,900	15,856
Inlco & Gamble Company	Common	136,400	13,710
Inlco Oil Ltd.	Common	813,000	6,504
Inlco Bank of Canada, The	Common	751,100	17,369
Inlco Dutch Petroleum Company	ADR	177,400	16,184
Inlco Grams Company Ltd., The	Common	177,100	18,064
Inlco Western Bell Corporation	Common	91,400	5,939
Inlco Corp.	Common	110,700	7,626
Inlco Corp.	Class B	293,300	6,123
Inlco Inc.	Common	105,900	5,837
Inlco Corporation, The	Common	663,200	11,274
Inlco- Dominion Bank, The	Common	756,000	12,569
Inlco Alta Utilities Corp.	Common	552,300	6,559
Inlco Canada Pipelines Ltd.	Common	349,100	5,935
Inlco NV	ADR	141,700	14,880
Inlco WEST INC.	Common	118,700	5,354
Inlco- Mart Stores, Inc.	Common	366,900	12,878
Inlco Disney Company	Common	46,000	5,417
Inlco Management, Inc.	Common	158,800	6,449
TOTAL		19,631,000	665,753

Board of Directors

Gerald K. Bouey, Chairperson
John H. C. Clarry
Gail Cook-Bennett
Duncan Green
Doug McAndless*
C. Edward Medland
Lynne Sullivan*
Margaret Wilson*

Investment Committee

Gerald Bouey
John Clarry
Gail Cook-Bennett
Duncan Green
Martin Hicks*
Doug McAndless*
C. Edward Medland, Chairperson
Gary Porter*
Lynne Sullivan*
Margaret Wilson*

Audit and Actuarial Committee

John Clarry
Gail Cook-Bennett
Doug McAndless*, Chairperson
Lynne Sullivan*

Benefits Adjudication Committee (Appeals)

Gerald Armstrong*
Jim Causley*
Duncan Green, Chairperson
Susan Hildreth*
David Kennedy
Sherry Corden
Ethel McLellan
David Paton
Ron Poste*
Raymond Prévost
Roger Régimbal*
George Saranchuk*

* nominated by Ontario Teachers' Federation

Corporate Directory

President and Chief Executive Officer:
Claude Lamoureux

Investments:

Senior Vice-President:
Robert Bertram

Vice-President, Fixed Income:
Patricia Murphy

Vice-President, Equities:
Heather Hunter

Vice-President, Research and Development:
George Engman

Vice-President, Real Estate:
Brian Muzyk

Portfolio Manager, Canada Bonds:
Lynn Patterson

Manager, Investment Accounting:
Rosemary Zigrossi

Client Services:

Vice-President:
William Foster

Managers, Client Services:
Robert Breens
Douglas Lyons
Maryanne McManus

Manager, Support Services:
Tom Dallas

Manager, Employer Services:
Angela Van Lamoën

Communications and Legislative Support:

Director:
Allan McKellar

Manager, Communications:
Lee Fullerton

Internal Audit:

Director:
Thomas Cheng

Human Resources:

Director:
John Brennan

Finance:

Manager:
Shirley Heath

Law:

General Counsel:
Roger Barton

Acknowledgements

We acknowledge the advice and assistance received throughout the year from our advisors and consultants.

A special thanks to the following students, teachers, and principals who appear in the photos on the front cover of this annual report. They are from Beverley Acres Public School, Crosby Heights Public School, Our Lady Help of Christians School, and St. Anne Catholic School in Richmond Hill.

Top photos, left to right:

Lucie Omkhoz	Yolène César
Adam Sampson	Carolyne Nantel
Brett Sampson	Toby Leung
	Andrew Saunders

Middle photos, left to right:

Sylvia Cohen	Erin Buckley
Bill Caldwell	Elizabeth Sampson
	Tara Buckley

Bottom photos, left to right:

Brian Caldwell	Alexander Nichol
Jennifer Jones	Alison Burri
Valmond Berubé	Jon Gage
Shasta Singh	

The information in this annual report does not fully describe the benefits of the pension plan. If there are any discrepancies, the *Teachers' Pension Act, 1989*, will apply.

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please send to:

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street
Suite 400
North York, Ontario
M2M 4H5
Toll-free: 1-800-668-0105
Local: 226-2700



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Teachers'
Pension Plan
Board

Conseil du régime
de retraite des enseignants
et des enseignantes

Conseil d'administration

Gerald K. Bouey, président

John H. C. Clarry

Gail Cook-Bennett

Duncan Green

Doug McAndless *

C. Edward Medland

Lynne Sullivan *

Margaret Wilson *

Comité des placements

Gerald K. Bouey

John H. C. Clarry

Gail Cook-Bennett

Duncan Green

Martin Hicks *

Doug McAndless *

C. Edward Medland, président

Gary Porter *

Lynne Sullivan *

Margaret Wilson *

Comité de vérification et d'actuariat

John Clarry

Gail Cook-Bennett

Doug McAndless *, président

Lynne Sullivan *

Comité d'appel

(Gerald Armstrong *, FEESO

Jim Causley *, ERO

Duncan Green, président

Susan Hildreth *, FWTAO

David Kennedy

Sherry Corden

Elisel McElliott

David Paton

Ron Poste *, OPSTF

Raymond Prevost

Roger Raghunath *, AFPO

(George Saranchuk *, OECTA

* nommée par la Fédération des enseignantes et des enseignants de l'Ontario

Répertoire de la

direction

Président et chef de la direction :

Claude Lamoureux

Placements :

Vice-président principal :

Robert Berram

Vice-présidente, valeurs à revenu fixe :

Patricia Murphy

Vice-présidente, placements en actions :

Heather Hunter

Vice-président, recherche et expansion :

George Engman

Vice-président, placements immobiliers :

Brian Muzyk

Gestionnaire de portefeuille, obligations du

Canada :

Lynn Patterson

Directrice, comptabilité de gestion des

placements :

Rosemary Ziegross

Services à la clientèle :

Vice-président :

William Foster

Directeurs, services aux participants :

Robert Brens

Douglas Lyons

Maryanne McManus

Directeur, services de soutien :

Tom Dallas

Directeur, services aux employeurs :

Angela Van Lamoen

Communications et soutien

juridique :

Directeur général :

Allan McKellar

Directrice, communications :

Lee Fullerton

Vérification interne :

Directeur :

Thomas Cheng

Ressources humaines :

Directeur :

John Brennan

Directrice :

Shirley Heath

Chef du contenu :

Roger Barton

Remerciements

Nous remercions sincèrement nos conseillers et nos experts-conseils de l'aide qu'ils nous ont apportée au cours de l'exercice.

Nos remerciements vont aussi aux élèves et aux enseignants qui appartiennent aux photos de la première couverture. Leurs écoles sont : Beverly Acres Public School, Crosby Heights Public School, Our Lady Help of Christians School et St. Anne Catholic School à Richmond Hill.

Photos du haut, de g. à d. :

Yolène César

Adam Sampson

Carolyne Nantel

Toby Leung

Brett Sampson

Andrew Saunders

Photos du milieu, de g. à d. :

Sylvia Cohen

Erin Buckley

Elizabeth Sampson

Tara Buckley

Photos du bas, de g. à d. :

Alexander Nichol

Alison Burri

Jennifer Jones

Valmond Berubé

Jon Gage

Shasta Singh

Les données du présent rapport ne présentent pas tous les détails des prestations du régime de retraite. En cas de disparité, la Loi de 1989 sur le régime de retraite des enseignantes et des enseignants a priorité.

Nous accueillons avec plaisir vos commentaires et vos suggestions au sujet du présent rapport, ou de tout autre aspect de notre programme de communications. Prière de les adresser au :

Services des communications

3650, rue Yonge

Bureau 400

North York (Ontario)

M2M 4H5

Sans frais d'interurbain : 1-800-668-0105

Communications locales : 226-2700



imprimé sur papier recyclé



Placements dans des actions de sociétés

en excédent de 5 millions de dollars canadiens

au 31 décembre 1990

(à la valeur du marché)

Entreprises	Description	Nombre d'actions	\$ CAN (en milliers)
Alcan Aluminium Ltée	Ordinaires	565 900	12 733
American Barrick Resources Corp.	Ordinaires	461 700	11 716
American Home Products Corporation	Ordinaires	291 300	17 787
American Information Technologies Corp.	Ordinaires	80 200	6 211
American International Group Inc.	Ordinaires	66 500	5 932
American Telephone & Telegraph Co.	Ordinaires	342 500	11 972
Amoco Corp.	Ordinaires	151 600	9 213
Atlantic Richfield Company	Ordinaires	49 500	7 100
Banque de Montréal	Ordinaires	351 300	10 232
Banque de Nouvelle-Ecosse (La)	Ordinaires	407 300	5 040
3CE Inc.	Ordinaires	622 800	24 601
Bell Atlantic Corp.	Ordinaires	121 600	7 566
Bellsouth Corp.	Ordinaires	147 000	9 338
Boeing Company	Ordinaires	116 800	6 149
Banque Canadienne Impériale de Commerce	Ordinaires	532 800	14 186
Canadien Pacifique Ltée	Ordinaires	768 500	15 178
Canadian Tire (La Société) Ltée	Ordinaires	542 400	11 119
Coca-Cola Co.	Ordinaires	207 700	11 206
Dow Chemical Co.	Ordinaires	145 500	8 019
Eastman Kodak Company	Ordinaires	121 200	5 854
Exxon Corp.	Ordinaires	633 700	38 051
General Electric Co.	Ordinaires	276 800	18 427
General Motors Corp.	Ordinaires	182 900	7 295
GTE Corporation	Ordinaires	233 700	7 931
Inasco Ltd.	Ordinaires	289 200	7 989
Imperial Oil Ltée	Classe A	176 800	10 365
Inco Limited	Ordinaires	390 000	11 459
International Business Machines Corp.	Ordinaires	183 100	24 007
Laidlaw Inc.	Classe B	551 400	11 786
Maclean Hunter Ltée	Ordinaires	664 600	6 397
Merck & Co. Inc.	Ordinaires	355 100	37 031
Mobil Corp.	Ordinaires	136 100	9 159
Moore Corporation Ltd.	Ordinaires	339 700	8 747
Noranda Inc.	Ordinaires	345 900	5 794
Northern Telecom Ltée	Ordinaires	435 800	14 186
Nova Corporation of Alberta	Ordinaires	1 029 000	8 875
Pacific Telesis Group	Ordinaires	121 300	6 369
Pepsico Inc.	Ordinaires	288 300	8 697
Phillip Morris Companies Inc.	Ordinaires	291 600	17 509
Placer Dome Inc.	Ordinaires	802 900	15 856
Procter & Gamble Company	Ordinaires	136 400	13 710
Ranger Oil Ltd.	Ordinaires	813 000	6 504
Banque Royale du Canada (La)	Ordinaires	751 100	17 369
Royal Dutch Petroleum Company	CAAB	177 400	16 184
Southwestern Bell Corporation	Ordinaires	177 100	18 064
Synnex Corp.	Ordinaires	91 400	5 939
Tenneco Inc.	Ordinaires	110 700	7 626
Teck Corp.	Classe B	293 300	6 123
Thomson Corporation, The	Ordinaires	105 900	5 837
TransAlta Utilities Corp.	Ordinaires	663 200	11 274
TransCanada Pipelines Ltd.	Ordinaires	756 000	12 569
Unilever NV	Ordinaires	552 300	6 559
U.S. West Inc.	Ordinaires	349 100	5 935
Wal-Mart Stores Inc.	CAAB	141 700	14 880
Walt Disney Company	Ordinaires	118 700	5 354
Waste Management Inc.	Ordinaires	366 900	12 878
	Ordinaires	46 000	5 417
	Ordinaires	158 800	6 449
		19 631 000	665 753

Tableau des débentures de la province de l'Ontario

au 31 décembre 1990

(en millions de dollars)

Placements détenus en 1990 Échéances en 1990

Date	Coupon	Valeur	Prix
------	--------	--------	------

d'échéance

%

du marché

coûtant

coûtant

1991-1995

8,00 - 6,99

417

454

8,00 - 8,99

182

195

9,00 - 9,99

148

152

10,00 - 10,99

197

202

11,00 - 11,99

65

64

1996-2000

7,00 - 7,99

102

120

8,00 - 8,99

399

458

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954

1 026

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13

14

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421

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121

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204

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2001-2005

9,00 - 9,99

594

646

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479

502

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563

549

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1 206

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873

760

14,00 - 14,99

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2006-2010

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2 910

2 996

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2 316

2 253

12,00 - 12,99

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420

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2011-2012

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2011-2012

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2011-2012

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2011-2012

Points saillants des états financiers - Rétrospective quinquennale

pour l'exercice terminé le 31 décembre

(en millions de dollars)

1990⁽¹⁾ 1989 1988 1987 1986

ÉVOLUTION DE L'ACTIF NET

Augmentation de l'actif Revenus de placement **1 958** 1 532 1 344 1 166 1 022

Cotisations

Participants - services courants **507** 352 321 290 272

- rachats **7** 6 5 6 6

- intérêts relatifs aux rachats **12** 13 8 10 11

Province de l'Ontario

- services courants **504** 347 314 287 266

- intérêts relatifs aux services courants **75** 57 52 46 44

- engagements non capitalisés **187**

Autres employeurs

- services courants **8** 6 5 5 5

1 300 781 705 644 604

Autres **33** 18 19 13 9

3 291 2 331 2 068 1 823 1 635

Diminution de l'actif

Diminution de la valeur du marché des

placements⁽¹⁾ **926**

Prestations versées **742** 435 361 300 242

Frais d'administration **20** 16 16 10 7

Autres éléments **19** 13 8 13 21

1 707 464 385 323 270

Augmentation de l'actif net

1 584 1 867 1 683 1 500 1 365

ACTIF NET

Placements⁽¹⁾ **18 954** 16 091⁽²⁾ 12 540 10 959 9 548

Encaisse et sommes à recevoir **1 447** 1 235 1 110 1 007 916

Passif **(277)** (238) (11) (10) (8)

20 124 17 088 13 639 11 956 10 456

- (1) Les placements sont évalués à la valeur du marché en 1990 et au prix coûtant pour les exercices antérieurs.
 (2) Les opérations du compte du Fonds d'indexation des pensions (FIP) ont été prises en compte dans les chiffres de 1990.
 (3) L'actif net de 1989 comprend celui du FIP transféré au 31 décembre 1989.

Notes afférentes aux états financiers

pour l'exercice terminé le 31 décembre 1990

9. FRAIS D'ADMINISTRATION

(en milliers de dollars)

1990	1989
1 246	8 653
1 1	1 465
1 340	1 338
1 335	1 053
733	446
604	568
558	346
542	352
514	460
331	224
260	130
240	
218	204
181	18
148	96
129	108
82	78
82	63
80	416
72	62
55	54
88	
20 303	15 566

10. ÉVENTUALITÉ

Une réclamation a été faite au régime relativement à des mesures de correction entreprises par le conseil en septembre 1986 afin de se conformer à une interprétation juridique de la Loi. Ces mesures ont donné lieu à la réduction d'environ 1 500 rentes sur une base prospective. La Cour suprême de l'Ontario s'est prononcée en faveur de l'interprétation donnée par le conseil à l'égard de cette réclamation, mais le demandeur a interjeté appel. L'issue de cet appel ne peut actuellement être déterminée avec certitude. Par conséquent, aucune provision n'a été constituée dans les états financiers. Tout règlement sera comptabilisé dans l'exercice au cours duquel il sera effectué.

11. ENGAGEMENTS

Aux termes d'un contrat de location de bureaux, le régime s'est engagé à effectuer les paiements minimums suivants :

1991	1992	1993	1994	1995	1996 et 1997
1 344	1 344	1 791	1 791	1 791	3 581
1 344	1 344	1 791	1 791	1 791	1 1 642

12. CHIFFRES DONNÉS À DES FINS DE COMPARAISON

Les chiffres de 1989 présentés à des fins de comparaison à l'état de l'actif net disponible pour le service des prestations comprennent l'actif net du compte du Fonds d'indexation des pensions, cette actif ayant été transféré au régime en date du 3 décembre 1989. Les chiffres présentés à des fins de comparaison de l'état de l'actif de l'évolution de l'actif net ne comprennent pas les opérations de 1989 relativement à ce compte puisque le transfert n'a été effectué qu'à la fin de 1989.

Depuis 1990, et en vertu de la loi, les provisions du compte du Fonds d'indexation des pensions sont intégrées aux autres provisions du régime. Les chiffres de 1990 comprennent par conséquent les opérations du régime intégrées.

Certains chiffres présentés à des fins de comparaison ont également été réagencés afin de permettre le rapprochement avec ceux de 1990.

L'évaluation actuarielle initiale aux fins de la capitalisation a été préparée par William M. Mercer Limitée en date du 1^{er} janvier 1990. Cette évaluation ne sera déposée auprès de la commission que lorsque le ministre de l'Éducation et le trésorier de l'Ontario l'autoriseront.

7. COTISATIONS

Participants		1989		1990		[en milliers de dollars]	
- au titre des services courants	506 704	351 741	- au titre des rachats	18 639	19 404		
Province de l'Ontario							
- services courants (y compris des intérêts de 74 782 \$; 57 193 \$ en 1989)	579 483	404 280	- paiements périodiques sur les engagements non capitalisés	187 275			
Autres employeurs							
- au titre des services courants	8 347	5 860					
	1 300 448	781 285					

8. PRESTATIONS VERSÉES

Prestations		1990		1989	
Rentes de retraite	673 536	588 129	Rentes d'invalidité	20 113	19 037
Prestations de décès	44 420	38 322	- rentes de survie	3 869	617
- paiements forfaitaires	741 938	646 117			
Moins les sommes recouvrées de la province de l'Ontario					
Fonds du revenu consolidé		122 224	Compte du Fonds d'indexation des pensions		88 789
		211 013	Prestations versées	741 938	435 098

5. POLITIQUE DE CAPITALISATION

Conformément à la loi, les participants actifs doivent verser 8,9 pour cent de leur salaire au régime.

La province est tenue de fournir le solde de la capitalisation requise pour assurer que les prestations seront entièrement capitalisées au moment de la retraite des participants, d'après une évaluation fondée sur la continuité de l'exploitation au 1^{er} janvier 1990. Cette évaluation, préparée conformément aux exigences de la loi et de la Loi sur les régimes de retraite, donnera lieu, en raison de la nature des hypothèses utilisées, à une dette actuarielle non capitalisée plus élevée que le déficit établi aux fins comptables, tel qu'il est décrit à la note 5.

La dette actuarielle non capitalisée que cette évaluation initiale a mise en lumière sera réglée par la province sur une période de 40 ans commençant le 1^{er} janvier 1990, par voie de paiements spéciaux. Ces paiements mensuels sont évalués à un pourcentage constant de la rémunération future prévue, à partir duquel les prestations sont calculées, sur les prochains 40 ans, pour tous les participants actifs du régime au cours de cette période.

À partir du 1^{er} janvier 1990 et jusqu'à ce que l'évaluation initiale soit approuvée par la Commission des régimes de retraite de l'Ontario (la commission), la province est tenue d'effectuer les paiements mensuels, tel qu'il est décrit dans la loi. Les écarts entre les paiements effectués et ceux requis pour cette période seront comblés par la province, intérêts compris, dans les 15 mois suivant l'approbation par la Commission de l'évaluation initiale. Les paiements effectués par la province au cours de 1990 ont totalisé 187,3 millions de dollars.

La province peut verser par anticipation les paiements mensuels provisionnels et les paiements spéciaux, les intérêts étant rajustés en conséquence.

La loi exige également l'établissement, dans l'évaluation initiale, d'un taux de cotisation qui assurera que les cotisations futures couvriront les prestations et les charges futures. Advenant un écart important dans le taux de cotisation, le lieutenant-gouverneur en conseil modifiera le régime.

Tout changement dans la capitalisation du régime mise en lumière par des évaluations futures fondées sur la continuité de l'exploitation sera réparti entre la province et certains employeurs. La loi prévoit également des mécanismes permettant de modifier cette entente advenant que la responsabilité de la province à l'égard du régime soit modifiée pour devenir une responsabilité conjointe ou unique prise en charge avec ou par les participants respectivement.

Notes afférentes
aux états financiers

pour l'exercice terminé le 31 décembre 1990

4. PLACEMENTS

(en milliers de dollars)

Prix	coûtant	coûtant
------	---------	---------

Débentures de la province de l'Ontario

Échantil de :

1 990 à 1995	1 009 590	1 067 286	1 409 967
1996 à 2000	2 502 880	2 569 150	2 569 150
2001 à 2005	4 261 094	3 997 833	3 997 833
2006 à 2010	6 937 676	6 628 500	6 628 500
2011 à 2012	1 240 732	1 205 000	1 205 000
15 951 972	15 467 769	15 810 450	

Titres du marché monétaire

Bons du Trésor et acceptations bancaires	1 313 161	1 313 161	262 174
Dépôts à terme	72 000	72 000	18 500
	1 385 161	1 385 161	280 674

Actions

Canadiennes	518 509	504 423	
Américaines	804 968	773 317	
	1 323 477	1 277 740	

Obligations

- canadiennes	293 170	294 281	
	18 953 780	18 424 951	16 091 124

Le taux pondéré des coupons, à la fin de l'exercice, des débentures de la province de l'Ontario fondé sur le prix coûtant moyen est de 11,25 % pour 1990 et 1989.

5. ENGAGEMENTS DE RETRAITE

La valeur actualisée des prestations de retraite constituées a été déterminée conformément aux principes comptables généralement reconnus pour les régimes de retraite, selon la méthode de la répartition des prestations au prorata des années de service et à partir des hypothèses les plus probables du conseil. La méthode actuarielle et les hypothèses diffèrent de celles utilisées dans l'établissement des engagements de retraite aux fins de la capitalisation, tel qu'il est décrit à la note 6. Le cabinet d'acteurs, William M. Mercer Limited, a établi la valeur actuarielle au 1^{er} janvier 1990, et cette valeur a été actualisée par extrapolation au 31 décembre 1990.

La valeur actuarielle actualisée des prestations au 31 décembre et les principales composantes de l'évolution des valeurs actuelles actualisées au cours de l'exercice ont été établies comme suit :

Valeur actuarielle actualisée des prestations	21 912 000
Intérêts cumulés sur les prestations constituées au début de l'exercice	2 309 000
Prestations versées	930 000
Prestations constituées à la fin de l'exercice	24 391 000
Les hypothèses ayant servi à déterminer la valeur actuarielle des prestations constituées tiennent compte des prévisions concernant la situation du marché à long terme. Les hypothèses actuarielles à long terme les plus importantes utilisées pour l'évaluation sont les suivantes :	
%	
Rendement de l'actif	10,50 pour dix exercices
Augmentations salariales	9,25 par la suite
Taux d'inflation	6,00
	4,50

La valeur actuarielle de l'actif net disponible pour le service des prestations a été déterminée de manière à tenir compte des tendances à long terme du marché (en conformité avec les hypothèses qui sous-tendent l'évaluation des prestations constituées). Cette valeur est obtenue en ajustant les valeurs du marché afin de tenir compte de tout écart entre les rendements réels et prévus du régime de façon uniforme sur une période de cinq exercices.

Le déficit de la valeur actuarielle de l'actif net par rapport à la valeur actuarielle actualisée des prestations constituées était aux fins comptables, le suivant à la fin de l'exercice :

Valeur du marché de l'actif net disponible pour le service des prestations	20 124 000
Modifications de la valeur du marché non prises en compte dans la valeur actuarielle de l'actif net	709 000
Valeur actuarielle de l'actif net disponible pour le service des prestations	20 833 000
Valeur actuarielle actualisée des prestations constituées	24 391 000
Déficit de la valeur actuarielle de l'actif net par rapport à la valeur actuarielle actualisée des prestations constituées	3 558 000

(en milliers de dollars)

(en milliers de dollars)

b) La méthode d'évaluation des débentures de la province de l'Ontario a été modifiée, passant du prix coûtant à la valeur du marché.

Au 1^{er} janvier 1990, l'excédent de la valeur du marché sur le prix coûtant des débentures était de 1,452 milliard de dollars. L'excédent correspondant au 31 décembre 1990 était de 0,484 milliard. Le changement de 0,968 milliard de dollars apporté en 1990, conjointement aux modifications de la valeur du marché des autres placements acquis durant l'exercice, sont compris dans l'état de l'évolution de l'actif net disponible pour le service des prestations.

3. LOI DE 1989 SUR LE RÉGIME DE RETRAITE DES ENSEIGNANTES ET DES ENSEIGNANTS

La législation de l'Ontario a modifié la loi régissant le régime de retraite en date du 31 décembre 1989. La loi a remplacé l'ancien loi, mais a prorogé le régime énoncé dans celle-ci, y compris les prestations découlant de la *Loi sur l'indexation des régimes de retraite*. Les conditions du régime sont énoncées dans la loi et l'annexe 1, annexe qui a pris effet le 1^{er} janvier 1990. La loi a également désigné le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario (le conseil de retraite) administrateur du régime. La Caisse de retraite des enseignants a été prorogée sous une nouvelle appellation, la Caisse de retraite des enseignantes et des enseignants de l'Ontario, pour la constitution des prestations.

Conformément à la loi, l'actif et le passif du compte du Fonds d'indexation des pensions ont été transférés au régime en date du 31 décembre 1989. L'actif net a été transféré par l'émission de débentures de la province de l'Ontario, s'élevant à 1,581 milliard de dollars. L'actif net disponible pour le service des prestations au 31 décembre 1989 comprend ces débentures. Les changements à l'actif net pour 1989 relativement à ce compte ont été présentés comme une entité distincte par le Vérificateur provincial de l'Ontario et ne sont pas donnés dans les chiffres de 1989 présentés à des fins de comparaison (se reporter à la note 12). La loi exige l'investissement de l'actif pour satisfaire aux engagements du régime. Il n'est plus obligatoire d'investir dans des débentures de la province de l'Ontario. La loi prévoit en outre une augmentation de 1 % du taux de cotisation des participants et des employeurs.

e) Prestations de décès

Des prestations de décès sont offertes au décès d'un participant et pourraient l'être au décès d'un retraité. Les prestations peuvent être versées sous forme d'une rente immédiate ou différée ou d'une somme forfaitaire.

f) Retraits

Sous réserve des dispositions d'immobilisation des cotisations, les remboursements en cas de sortie du régime et les transferts, y compris les intérêts, sont payables lorsqu'un participant cesse d'avoir un emploi dans le secteur de l'enseignement.

g) Impôts sur le revenu

Le régime est un régime de rente agréé en vertu de la Loi de l'impôt sur le revenu et, par conséquent, la Caisse de retraite des enseignantes et des enseignants de l'Ontario (la caisse) n'est pas assujettie à l'impôt sur le revenu. Le numéro d'enregistrement du régime est le 0345785.

h) Indexation des prestations

Depuis 1970, les prestations de retraite sont rajustées en fonction de l'inflation à 100 % de l'indice des prix à la consommation, sous réserve d'un maximum de 8 % par année, tout excédent étant reporté. Certaines prestations pour les périodes avant 1970 ont été rajustées à la hausse conformément à des arrêtés en conseil émis avant 1976.

2. MODIFICATIONS AUX CONVENTIONS COMPTABLES

Les conventions comptables ainsi que le mode de présentation de ces états financiers ont été modifiés en 1990 afin de refléter l'adoption anticipée des principes comptables généralement reconnus à l'égard des régimes de retraite. Ces normes sont obligatoires aux fins générales des états financiers du régime pour 1991. Ces changements, qui ont été appliqués de façon prospective, sont les suivants :

a) Le mode de présentation des états financiers, y compris celui des notes, a été modifié. Antérieurement, l'information portait essentiellement sur l'actif net de la caisse et les opérations s'y rapportant; elle comprend maintenant les engagements relatifs aux rentes du régime.

Notes afférentes aux états financiers

Pour l'exercice terminé le 31 décembre 1990

SOMMAIRE DES PRINCIPALES CONVENTIONS COMPTABLES

a) Mode de présentation

Les présents états financiers ont été dressés selon la convention de la continuité de l'exploitation, et ils présentent la situation financière globale du Régime de retraite des enseignantes et des enseignants de l'Ontario (le régime) considéré comme une entité distincte, indépendante de son promoteur et de ses participants. Ces états ont été dressés afin d'aider les participants au régime et d'autres personnes à évaluer la sécurité globale des prestations du régime.

b) Placements

Les placements sont présentés à la valeur du marché en 1990 et sont inscrits à la date où ils sont négociés (se reporter à la note 2). Les déventures de la province de l'Ontario, qui ne sont pas négociables, sont inscrites à la valeur du marché estimative calculée en actualisant le flux monétaire d'après les rendements sur le marché à la fin de l'exercice de titres comparables. Les titres du marché monétaire sont inscrits à la fraction non amortie du coût, qui se rapproche de la valeur du marché. Les obligations et les actions sont évaluées aux cours du marché à la fin de l'exercice.

L'écart entre la valeur du marché et le coût moyen des placements est présenté à l'état de l'évolution de l'actif net disponible pour le service des prestations.

Les gains et les pertes sur la vente de placements sont déterminés en utilisant le coût moyen et sont imputés aux revenus de placement. Les dividendes sont constatés par régularisation à la date ex-dividende.

c) Cotisations de la province de l'Ontario

Les paiements spéciaux et provisionnels de la province de l'Ontario (la province) sur la dette non capitalisée sont inscrits à l'exercice au cours duquel ils sont reçus.

d) Conversion des devises

Les éléments d'actif et de passif libellés en devises sont convertis en dollars canadiens au taux de change en vigueur à la fin de l'exercice. Les revenus de placement sont convertis au taux mensuel moyen.

1. DESCRIPTION DU RÉGIME

e) Prestations

Les versements des prestations, les remboursements et les transferts sont inscrits à l'exercice au cours duquel ils sont effectués.

a) Généralités

La description suivante du régime n'est qu'un résumé. Pour obtenir plus de renseignements, il y a lieu de se reporter à la Loi de 1989 sur le régime de retraite des enseignants (la Loi) et à la Loi de 1987 sur les régimes de retraite.

b) Capitalisation

Le régime est un régime de retraite contributif à prestations déterminées dont le promoteur est la province de l'Ontario. Ce régime est obligatoire pour la plupart des personnes qui sont admissibles à y participer. Les cotisations sont versées par les participants actifs, par des écoles privées et organismes désignés et par la province. Le régime est enregistré auprès de la Commission des régimes de retraite de l'Ontario sous le numéro C008450.

c) Rentes de retraite

Les prestations aux termes du régime sont capitalisées par voie de cotisations des participants actifs, des employeurs désignés et de la province. Le calcul de la valeur des prestations est effectué d'après des évaluations actuarielles (se reporter à la note 6). En vertu du paragraphe 5 (3) de la Loi, la province couvre toute insuffisance annuelle du flux monétaire après l'allocation de tous les éléments d'actif du régime pouvant être vendus.

d) Rentes d'invalidité

Des rentes de retraite sont offertes d'après le nombre d'années de service décomptées, le salaire moyen des cinq meilleures années et l'âge du participant au moment du départ à la retraite. Un participant est admissible à une rente de retraite réduite à partir de l'âge de 55 ans lorsque la somme de l'âge du participant et de ses années de service équivaut à 90, une rente de retraite non réduite peut lui être versée quel que soit son âge.

Des rentes d'invalidité sont offertes à tout âge, aux participants frappés d'invalidité, sous réserve d'un minimum de 10 années de service décomptées. Le type de rente est fonction du degré d'invalidité.

État de l'évolution de l'actif net disponible pour le service des prestations

Pour l'exercice terminé le 31 décembre 1990

(en milliers de dollars)

Augmentation de l'actif		1990	1989
Revenus de placement	Déductions de la province de l'Ontario	1 762 762	1 514 015
Encaisse et titres du marché monétaire		188 036	17 722
Actions		5 896	
Obligations		1 022	
Cotisations (note 7)		1 957 716	1 531 737
Rachats de cotisations retirées		13 342	9 231
Transferts provenant d'autres régimes		19 262	8 544
Total de l'augmentation de l'actif		3 290 768	2 330 797
Diminution de l'actif			
Diminution de la valeur du marché de placements		926 357	
Prestations versées (note 8)		741 938	435 098
Remboursements de cotisations		11 180	7 158
Transferts à d'autres régimes		6 816	5 778
Frais d'administration (note 9)		20 303	15 566
Total de la diminution de l'actif		1 706 594	463 600
Augmentation de l'actif net		1 584 174	1 867 197
Actif net disponible pour le service des prestations, au début de l'exercice		17 087 899	13 639 352
Redressement des placements à la valeur du marché, au début de l'exercice (note 2)		1 452 259	
Transfert d'actif net du compte du Fonds d'indexation des pensions (note 3)			1 581 350
Actif net disponible pour le service des prestations, à la fin de l'exercice		20 124 332	17 087 899

**État de l'actif net disponible
pour le service des prestations**

au 31 décembre 1990

(en milliers de dollars)

Actif	
Placements (notes 2 et 4)	15 951 972
Débitures de la province de l'Ontario	1 385 161
Titres du marché monétaire	1 323 477
Actions	293 170
Obligations	18 953 780
	16 091 12

Somme à recevoir de la province de l'Ontario	848 701
Collisions des employeurs	96 182
Intérêts sur les collisations des employeurs	77 59
	660 28

Somme à recevoir des employeurs	944 883
	737 88
	5 40
Intérêts courus et dividendes	502 462
	464 38
Encaisse	27 211
Total de l'actif	20 401 125
	17 326 00

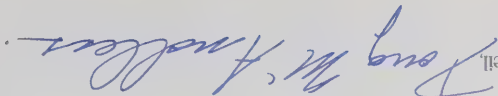
Passif	
Dette bancaire	2 534
Créditeurs et charges à payer	13 397
	11 38
Somme à payer aux courtiers	260 862
	226 72
Total du passif	276 793
	238 10
Actif net disponible pour le service des prestations	20 124 332
	17 087 89

Au nom du conseil,

Le président,



Un membre du conseil,



Rapport des vérificateurs à l'administrateur

Nous avons vérifié l'état de l'actif net disponible pour le service des prestations du Régime de retraite des enseignantes et des enseignants de l'Ontario au 31 décembre 1990 et l'état de l'évolution de l'actif net disponible pour le service des prestations de l'exercice terminé à cette date. La responsabilité de ces états financiers incombe à l'administrateur du régime. Notre responsabilité consiste à exprimer une opinion sur ces états financiers en nous fondant sur notre

Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues. Ces normes exigent que la vérification soit planifiée et exécutée de manière à fournir un degré raisonnable de certitude quant à l'absence d'inexactitudes importantes dans les états financiers. La vérification comprend le contrôle par sondages des informations probantes à l'appui des montants et des autres éléments d'information fournis dans les états financiers. Elle comprend également l'évaluation des principes comptables suivis et des estimations importantes faites par la direction, ainsi qu'une appréciation de la présentation d'ensemble des états financiers.

À notre avis, ces états financiers présentent fidèlement, à tous égards importants, l'actif net du régime disponible pour le service des prestations au 31 décembre 1990, ainsi que l'évolution de son actif net disponible pour le service des prestations pour l'exercice terminé à cette date selon les principes comptables généralement reconnus.

Peat Marwick Thorne

Comptables agréés
Toronto, Canada
Le 19 avril 1991

Responsabilité à l'égard de la présentation de renseignements financiers

Les états financiers du Régime de retraite des enseignantes et des enseignants de l'Ontario ont été dressés par la direction selon les principes comptables généralement reconnus et ils comprennent, s'il y a lieu, des montants fondés sur les estimations et les hypothèses que la direction considère les plus probables dans les circonstances. Tous les autres renseignements financiers et données sur les activités présentés dans le rapport annuel sont, le cas échéant, en conformité avec ceux des états

La direction maintient des systèmes de contrôle financiers et de contrôle des activités conçus pour fournir un degré de certitude raisonnable que l'information financière est fiable, que l'actif du régime est préservé et contrôlé et que les opérations sont effectuées conformément à la Loi sur le régime de retraite des enseignants.

Les vérificateurs externes du régime, Peat Marwick Thorne, ont effectué une vérification indépendante des états financiers selon les normes de vérification généralement reconnues. Leur vérification a comporté l'examen et l'évaluation des systèmes de contrôle ainsi que des sondages et autres procédés appropriés dans le but de fournir une certitude raisonnable quant à la fidélité de la présentation des états financiers.

La responsabilité des états financiers incombe au conseil d'administration. Cette responsabilité est déléguée au comité de vérification et d'actariat qui est composé de quatre membres du conseil. Afin d'assurer qu'il s'acquitte adéquatement de ses responsabilités, le comité rencontre régulièrement la direction et les vérificateurs. Les vérificateurs peuvent rencontrer, sans aucune restriction, le comité afin de discuter de toute question pertinente. Le comité a effectué une révision de ces états financiers avec la direction et les vérificateurs et les a soumis au conseil d'administration. Ce dernier a approuvé les états financiers.

Le président et chef de la direction,
La directrice des finances,

Claude R. Lamoureux
Shirley D. Heath, c.a.

Opinion formulée par les actuaire

Nous avons effectué une évaluation actuarielle des engagements du Régime de retraite des enseignantes et des enseignants de l'Ontario (le « régime ») au 1^{er} janvier 1990 en présumant de l'existence continue du régime, et nous avons projeté la valeur de ces engagements au 31 décembre 1990 pour les inclure dans les états financiers du régime. De plus, nous avons évalué l'actif du régime au 31 décembre 1990 et estimé le passif non capitalisé à cette date.

L'évaluation du passif actuariel du régime a été fondée sur ce qui suit :

- les données sur la participation au 1^{er} janvier 1990 fournies par le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario (le conseil) ;
- les méthodes prescrites par l'Institut Canadien des comptables agréés relativement aux états financiers des régimes de retraite ; et
- les hypothèses sur les événements à venir (par exemple, taux d'inflation futurs et taux de rendement futurs de l'actif de la caisse de retraite) qui nous ont été transmises à titre de meilleure estimation de ces événements, faite par le conseil.

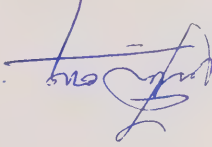
L'objectif des états financiers est de présenter fidèlement la situation financière du régime au 31 décembre 1990 en présupposant de l'existence continue du régime. La situation financière présentée dans ces états est différente de celle produite pour l'évaluation réglementaire (c'est-à-dire l'évaluation actuarielle requise en vertu de la Loi sur le régime de retraite des enseignants et la Loi sur les régimes de retraite), qui utilise des

méthodes actuarielles prescrites en vertu de la Loi sur le régime de retraite des enseignantes et des hypothèses modérées relativement aux événements à venir afin d'établir un niveau prudent de cotisations futures.

Bien que les hypothèses actuarielles utilisées pour estimer le passif actuariel porté aux états financiers du régime représentent la meilleure estimation des événements à venir, faite par le conseil, et bien que, à notre avis, ces hypothèses soient raisonnables, l'évolution future du régime sera inévitablement différente, voire considérablement différente, par rapport aux hypothèses actuarielles. Tout écart entre les hypothèses actuarielles et l'évolution future se traduira par des gains ou des pertes dans les évaluations ultérieures et aura une incidence sur la situation financière du régime et sur les cotisations requises pour la capitalisation du régime, à ce moment.

Selon certains tests de cohérence des données que nous avons faits, nous sommes d'avis que les données sont sûres et suffisantes pour l'application de l'évaluation. À notre avis, les méthodes utilisées sont conformes aux principes actuariels généralement reconnus, et les hypothèses sont appropriées pour l'application de l'évaluation. Notre opinion a été formulée et notre évaluation, effectuée, conformément aux principes actuariels généralement reconnus.

Lester J. Wong, FICA



Malcolm P. Hamilton, FICA



d'actif. En 1991, nous devrions avoir 2,5 milliards de dollars disponibles pour les placements, dont seulement 19 millions proviendront des débentures de la province à leur échéance. Nous accroîtrons le portefeuille d'actions canadiennes en vue d'atteindre l'objectif fixé. Notre portefeuille d'actions américaines a déjà l'ampleur visée : son expansion suivra celle de l'actif global. Plus tard dans l'année, nous ferons des placements sur le marché international par l'intermédiaire de gestionnaires externes. Au cours de l'exercice, nous augmentons notre portefeuille d'obligations canadiennes et américaines, et nous espérons acquérir, pour la première fois, des titres de participation

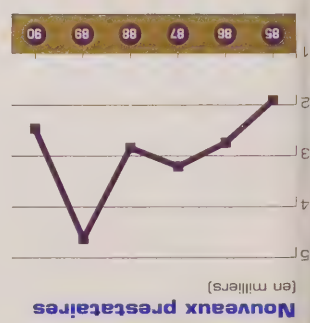
comme le recommande l'ITCA, et se veut plus réaliste. L'évaluation comptable a dégagé un déficit à 3,6 milliards de dollars à la fin de l'exercice 1990. L'évaluation réglementaire, effectuée à la même date selon des hypothèses plus prudentes et des calculs différents, indiquera une dette non capitalisée supérieure. Notre objectif à court terme est de constituer un portefeuille diversifié, présentant un équilibre entre les catégories

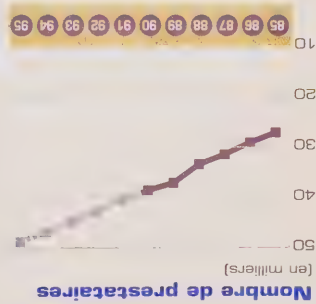
Perspectives à court terme

À long terme, notre tâche consiste à placer judicieusement les fonds disponibles pour que le régime puisse pourvoir aux rentes des participants, à un coût raisonnable pour eux comme pour le promoteur du régime. Finalement, nous prendrons toutes les mesures voulues pour assurer à notre clientèle un service de qualité supérieure.

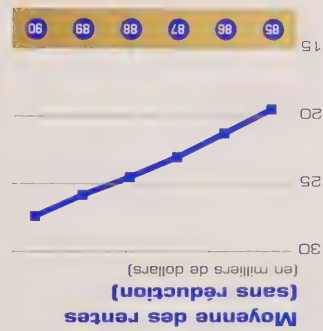
de revenus. dans des biens immobiliers productifs

Perspectives à long terme





Nombre de prestataires (en milliers)



Moyenne des rentes (sans réduction) (en milliers de dollars)

en escomptant le flux monétaire en fonction du rendement que procureraient des obligations analogues de l'Ontario. Ce calcul a eu pour résultat une baisse de la valeur du marché parce que les taux d'intérêt ont augmenté pendant l'exercice.

Lorsque nous avons accepté de prendre en charge le régime de retraite, il était reconnu que la valeur de son actif et la valeur des cotisations futures aux taux courants ne suffiraient pas à couvrir les prestations futures des participants actuels.

Selon la *Loi de 1989 sur le régime de retraite des enseignants*, le conseil de retraite devait charger un actuaire indépendant d'établir le montant des engagements légaux au 1^{er} janvier 1990 et celui des cotisations à payer par le gouvernement provincial (sous forme de versements spéciaux échelonnés sur 40 ans) pour combler le déficit. La méthode d'amortissement choisie aura pour effet d'augmenter le déficit pendant plusieurs années avant de le diminuer.

De plus, la *Loi sur le régime de retraite des enseignants* exige que l'actuaire établisse le taux de cotisation des enseignants et du gouvernement, afin que le régime puisse pourvoir aux prestations futures et couvrir les frais administratifs afférents.

L'an dernier, le conseil de retraite a chargé William M. Mercer Ltée, cabinet d'actuaire-conseils, d'effectuer l'évaluation et d'établir le taux de cotisation. Le cabinet a déposé son rapport auprès du Trésorier de l'Ontario et du ministre de l'Éducation.

Les régimes de retraite ne peuvent emprunter à des fins de placement, mais peuvent le faire, pour un maximum de 90 jours, à des fins liées à leur fonctionnement. La somme des cotisations et des autres revenus annuels dépasse largement le total des annuités de rente et des autres éléments de passif, et nous prévoyons qu'il en sera ainsi pendant plusieurs années. Nous avons besoin de liquidités principalement pour couvrir les prestations à verser, les frais du programme de placement et les frais administratifs courants.

Évaluations à long terme

Sur une base permanente, deux évaluations actuarielles seront nécessaires. La première, l'évaluation réglementaire, est requise par la *Loi sur le régime de retraite des enseignants* et par la *Loi de 1987 sur les régimes de retraite de l'Ontario*. La loi exige une évaluation de la capitalisation au moins tous les trois ans. La seconde évaluation est maintenant exigée par l'ITCA.

L'évaluation réglementaire tient compte de l'actif et du passif à court terme, ainsi que des cotisations et des prestations futures. Elle a pour but de prévoir la valeur de l'actif et du passif tout au long de la vie des participants actuels. Cette évaluation adopte une approche « prudente », comme le recommande la loi, ce qui signifie que les hypothèses touchant des événements et tendances à venir sont faites avec modération.

L'évaluation comptable détermine les sommes dont doit disposer le régime en fin d'exercice pour couvrir le coût de futures prestations déjà acquises correspondant à des services accomplis. Contrairement à l'évaluation réglementaire, celle-ci ne tient pas compte des futures cotisations ni des prestations non encore acquises. L'évaluation comptable utilise les hypothèses de la direction « meilleure estimation » par la direction

Taux de rendement, par catégorie de placements

(selon la valeur du marché)

	Débentures de la province de l'Ontario	Actions	Titres de créance	Global
%	5,36	9,20*	13,20	5,60

*D'octobre à décembre seulement

Modifications aux conventions comptables

l'institut canadien des comptables (ICCA) a établi pour les régimes de retraite des principes comptables généralement reconnus (P.C.G.R.) qui sont applicables dans l'exercice 1991. Nous avons décidé de nous conformer, en 1991, à l'avance, aux nouvelles normes

écrites au chapitre 4100 du manuel de l'ICCA. La direction doit fournir une évaluation des engagements comptables du régime en fin d'exercice, afin d'aider les participants à juger de la sécurité globale de leurs rentes futures. Cette évaluation est comprise dans les états financiers de 1990 : ceux des exercices précédents portaient surtout sur l'actif net. Le sujet de l'évaluation comptable est abordé plus loin dans le présent rapport.

Les nouveaux P.C.G.R. exigent aussi que les placements soient évalués à leur valeur du marché plutôt qu'à leur prix d'achat. C'est ainsi que nous avons procédé dans les états financiers de 1990, quoique pour les chiffres de 1989, les évaluations soient demeurées au prix coûtant. Il faut donc en tenir compte dans la comparaison des états financiers de ces deux exercices.

Rendement financier

de 1990

Le régime de retraite a connu un rendement relativement bon en 1990, enregistré à la valeur du marché, un taux de rendement de 5,6 %. Ce taux se compare à un rendement moyen de -0,3 % pour les caisses de retraite équilibrées et de -2,6 % pour un indice composé de placements diversifiés, selon les données de TPF&C Limitée. L'analyse qui suit est fondée sur les résultats présentés dans les états financiers vérifiés de 1990.

Le régime a commencé l'exercice avec un actif net de 18,5 milliards de dollars, après ajustement du prix coûtant d'origine des débentures provinciales à leur valeur du marché estimative.

Au cours de l'exercice, les revenus du régime ont été de 3,3 milliards de dollars, en majeure partie des revenus de placement (près de 2 milliards). Pour la première fois, les actions et obligations ont contribué aux revenus de placement, bien que ceux-ci provenaient encore à 90 % des débentures de l'Ontario.

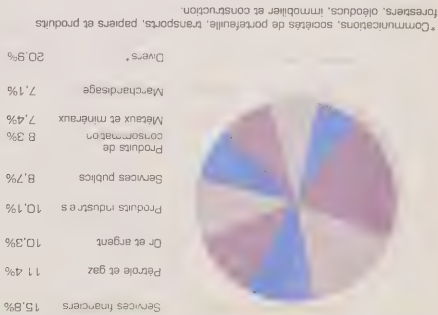
Les cotisations au régime ont ajouté 1,3 milliard de dollars aux revenus. Cette somme comprend l'augmentation de 300 millions des cotisations salariales et patronales, résultant en grande partie de la Loi sur le régime de retraite des enseignants, laquelle a intégré dans le régime, au début de 1990, la partie du Fonds d'indexation des pensions, établi

par le gouvernement, afférente aux rentes des enseignants. La loi prévoyait aussi une majoration de 1 % du taux de cotisation. Les cotisations de 1990 incluaient également les 187 millions versés par le gouvernement de l'Ontario à titre de paiement provisoire sur la dette non capitalisée antérieure à 1990.

Les dépenses ont augmenté au cours de l'exercice en raison des prestations plus élevées de retraite, d'invalidité et de survie. Leur total de 742 millions de dollars marque une augmentation de 307 millions comparativement à 1989, dû en grande partie au fait qu'en 1990, le régime a pris entièrement en charge les revalorisations en fonction du coût de la vie, lesquelles étaient auparavant payées par le gouvernement provincial à même le Fonds consolidé du revenu et la partie du Fonds d'indexation des pensions, afférente aux rentes des enseignants. L'augmentation des prestations servies reflète aussi celle du nombre de prestataires.

Les fluctuations des cours des débentures et des actions ont entraîné en 1990 une diminution de 926 millions de la valeur du marché de notre portefeuille. Toutefois, comme nous avions porté la valeur au 1^{er} janvier à 1,452 milliard de plus, la valeur était plus élevée à la fin de l'exercice qu'elle ne l'aurait été sans cette réévaluation. Bien que les débentures ne soient pas négociables, leur valeur estimative peut être établie

Actions canadiennes en 1990, par secteur



À long terme, notre portefeuille réunira des éléments d'actif offrant différents profils de risque. Il sera composé aux deux tiers d'actions, les titres de créance formeront le dernier tiers.

Lorsqu'on parle d'actions, l'on sous-entend la propriété d'éléments d'actif

tel que des actions de société et des biens immobiliers offrant un accroissement des revenus et une plus-value. Le rendement des placements en actions peut varier considérablement à court

terme mais, à long terme, leur croissance est généralement faible. En

général, nous nous concentrerons sur le rendement à long terme, pour couvrir les engagements à long terme que sont

les rentes entièrement indexées.

Nous donnons ici la répartition de notre portefeuille par catégorie d'éléments d'actif. Selon la politique adoptée par le gouvernement de l'Ontario, et avec l'approbation de la Fédération des enseignants et des enseignants de l'Ontario, les actions de sociétés ayant des investissements importants en Afrique du Sud sont exclues de nos portefeuilles.

Actions canadiennes - 20 à 50 % de l'actif total

Les marchés boursiers sont instables à court terme et ils peuvent, au cours d'une seule année, produire des résultats déficitaires. Toutefois,

les actions de grandes sociétés

apportent généralement un accroissement de dividendes et une plus-value sur de longs cycles économiques. Cette partie du portefeuille prendra du temps à constituer parce que la capitalisation des compagnies formant l'indice des 300 de la Bourse de Toronto est de moins de 160 milliards de dollars.

Actions américaines - 5 à 10 %

Le marché américain propose un choix beaucoup plus vaste d'actions de grandes sociétés que le marché canadien. Par exemple, la capitalisation des 500 de S&P est de 2,2 bil-

lions. Au début de 1991, nous étions près d'atteindre l'objectif minimum.

Cette partie grandira en fonction de l'accroissement global de l'actif.

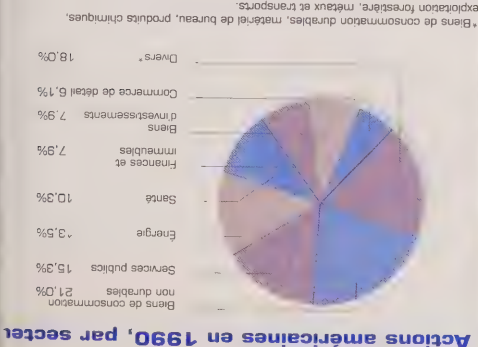
Actions hors du Canada et des États-Unis - jusqu'à 10 %

Il est possible de rechercher un accroissement à long terme dans des sociétés hors de l'Amérique du Nord. Cette année, nous achèterons des actions en Europe, en Australie et en Extrême-Orient par l'entremise de gestionnaires externes.

Biens immobiliers - de 5 à 20 %

Les biens produits de revenus, tels que les immeubles de bureaux, les centres commerciaux et les propriétés industrielles, donnent un rendement supérieur à long terme.

Les revenus de location représen-



tenent habituellement 70 % du rendement global, et l'accroissement du capital, 30 %. La liquidité de l'immobilier est toutefois restreinte, comparativement aux actions et obligations.

Autres actions - jusqu'à 5 %

Nous envisagerons la possibilité d'investir, entre autres, dans des sociétés privées et dans des entreprises exploitant des richesses naturelles. Cependant, cela ne se fera pas avant plusieurs années.

cette partie n'étant pas prioritaire. Les titres de créance ont des taux de rendement fixes à échéance fixe, bien que leur valeur du marché change selon les taux d'intérêt courants.

Placements sur le marché monétaire - jusqu'à 20 %

Il s'agit de titres de créance à court terme, comme les bons du Trésor et les dépôts en banque. Leur avantage principal est la liquidité.

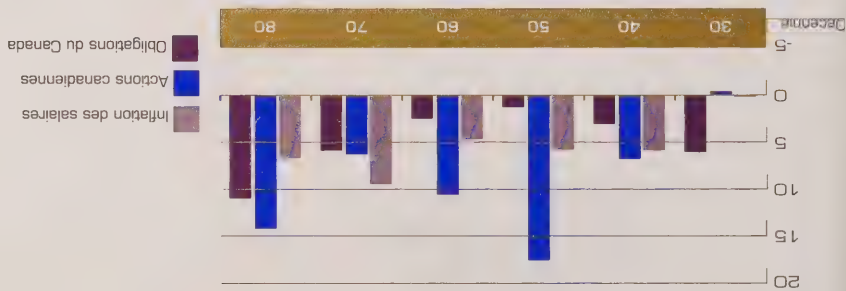
Titres de créance à long terme - jusqu'à 30 %

Ils comprennent les obligations fédérales et provinciales, ainsi que les hypothèques reliées aux indices

Les placements à revenu fixe sont plus stables que les actions, et leurs revenus à long terme plus

prévisibles.

Évolution de l'inflation et des taux de rendement des placements au Canada (en %)



des sociétés canadiennes qui, selon nous, offrent une valeur fondamentale et un potentiel exceptionnel de croissance à long terme. Ce portefeuille, qui com-

ptétera le fonds de l'indice des 300 de la Bourse de Toronto, pourrait améliorer le rendement à long terme.

acheter d'autres reflétant l'indice des 500 de S & P.

Ces indices mesurent le rendement des actions de sociétés bien établies dans divers secteurs de l'économie.

Investir dans un fonds indexé est une façon efficace de former un vaste

portefeuille d'actions; cela permet aussi de reconnaître qu'il est extrêmement

difficile pour les gestionnaires de « devancer le marché » avec cohérence

sur une longue période. Les fonds indexés seront la base de notre porte-

feuille.

Nous avons réévalué les débentures provinciales à 1452 milliard de plus le

1^{er} janvier 1990, passant du prix cotant à la valeur du marché. Mais la hausse

des taux d'intérêt pendant l'année a fait diminuer de plus de 950 millions la

valeur théorique de ces débentures.

Toutefois, la diminution de la valeur du marché subie en 1990 a été récupérée pendant le premier trimestre de 1991

par suite de la baisse des taux d'intérêt. Le portefeuille débentures étant à

long terme, sa valeur diminue de 7 % par 1 % de hausse des taux d'intérêt, et vice

versa. Les variations des taux d'intérêt continueront d'influer fortement sur la

valeur du marché des débentures et sur la valeur du portefeuille.

Nous comptons aussi investir dans

l'effet, les taux d'intérêt sur les bons du trésor et les dépôts en banque ont été

élevés pendant presque toute l'année, surclassant les actions et les obligations.

Une fois les gestionnaires en poste, nous avons entrepris de diversifier en

aisant des placements en actions de la fin d'octobre à la fin de l'exercice, et en

obligations en décembre. Une fois de plus, le moment était bien choisi, à cause

des taux d'intérêt modérés en fin d'année et la reprise des cours boursiers.

Vers la fin de l'année, nous avions placé 519 millions de dollars en actions

canadiennes (3 % de l'actif investi, à la valeur du marché) et 805 millions en

actions américaines (4 %). Les placements sont plus élevés aux États-Unis

car, vu l'importance du marché améri-

cain, il peut absorber les achats sans en être perturbé.

Les obligations du Canada, évaluées à 293 millions de dollars, représentaient

2 % des placements, et ceux faits sur le marché monétaire, 7 % (1,4 milliard). Les

débentures de l'Ontario dominaient toujours avec un total de 16 milliards de

titres, soit 84 % de l'actif investi. En 1990, nous avons chargé trois

gestionnaires externes d'acquiescer des actions de compagnies regroupées sous

l'indice des 300 de la Bourse de Toronto et un quatrième gestionnaire, d'en

Placements au 31 décembre 1990

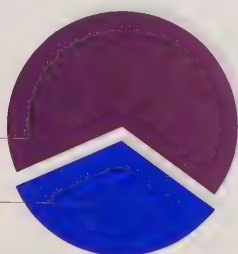
Valeur du marché
Prix cotant

Placements	Valeur du marché	Prix cotant
Débentures de la province de l'Ontario	15 952 \$	15 468 \$
Titres du marché monétaire	1 385	1 385
Actions américaines	805	773
Actions canadiennes	519	505
Obligations du Canada	293	294
Total	18 954 \$	18 425 \$

18 954 \$ 18 425 \$

Analyse par la direction

Portefeuille prévu



1/3 en valeurs à
revenu fixe

2/3 en actions

Les fonctions du Conseil du régime

de retraite des enseignantes et des

enseignants de l'Ontario sont celles d'un

administrateur de régime de retraite et

d'une société de portefeuille. Le conseil

encasse les cotisations des participants

et du promoteur du régime et les place

dans un portefeuille diversifié, gère

l'actif en vue de sa croissance à long

terme et verse les rentes. Le régime

compte environ 160 000 enseignants

actifs, 88 000 enseignants inactifs et

39 000 retraités. La province de

l'Ontario est le promoteur du régime.

En tant que gestionnaire de porte-

feuille dont les opérations s'étendent au

marché public, le conseil de retraite

s'engage à tenir les participants du

régime, le gouvernement provincial

et le monde des affaires au courant de

ses activités et du rendement de ses

placements.

Sous ce rapport, le conseil de

retraite entend suivre les normes de

présentation des sociétés ouvertes du

secteur privé. Le chapitre Analyse par la

direction, du présent rapport annuel,

fournit des renseignements financiers

qui permettront aux intéressés d'être

plus en mesure de juger notre

rendement.

existence, le régime de retraite devait,

de par la loi, limiter ses placements aux

débitures de la province de l'Ontario.

À la fin des années 80, le gouvernement

ontarien a décidé, après étude, de per-

mettre à certains régimes de retraite du

secteur public, de diversifier leur actif

en vue d'un meilleur rendement finan-

cier et d'une capitalisation entière.

C'est en 1989 que le processus a

abouti à l'adoption de la *Loi sur le*

régime de retraite des enseignants et la

formation subéquente du Conseil du

régime de retraite des enseignantes et

des enseignants de l'Ontario, rem-

placant la Commission du régime de

retraite des enseignants.

Le 1^{er} janvier 1990, nous disposons

d'un portefeuille de 16 milliards de dol-

lars en débiteures non négociables. De

20 à 25 ans à l'origine, les dernières

arriveront à échéance en 2012. Les

débitures ont en moyenne un taux

d'intérêt nominal pondéré de 11,25 %.

Politique générale de placement

Le conseil de retraite s'efforce de gérer

le régime en vue du meilleur rendement

possible, en ne prenant toutefois que des

risques modérés. La clé est d'obtenir des

revenus suffisamment supérieurs au

taux d'inflation pour couvrir les coûts

des prestations indexées. Les rentes

Pendant les 72 premières années de son

sont revalorisées en fonction de l'indice
des prix à la consommation, sous
réserve d'un maximum annuel de 8 %,
tout excédent étant reporté.
Pour nos placements, nous avons
fixé comme objectif à long terme un
taux de rendement annuel réel (i.e.,
compte tenu de l'inflation), de 4,5 % sur
une moyenne mobile calculée sur cinq
ans. Nous nous attendons à réaliser ce
but une fois que notre portefeuille sera
équilibré.

Stratégie de placement à court terme

En 1990, les sommes à placer étaient de
l'ordre de 2,6 milliards de dollars, pro-
venant de trois sources — près de
2 milliards en revenus de placement,
environ 350 millions en débiteures
échues et le reste en cotisations des par-
ticipants et du promoteur du régime et
en versements spéciaux du gouverne-
ment provincial, net des prestations
services.

Pendant les neuf premiers mois de
1990, les fonds ont été placés en valeurs
à court terme sur le marché monétaire.
La stratégie initiale consistait à réserver
des liquidités pour qu'une fois en fonc-
tion plus tard dans l'année, les gestion-
naires de portefeuille les réinvestissent
dans d'autres éléments d'actif. Cette
stratégie s'est révélée un bon choix. En

Frais d'administration
 Les frais d'administration du conseil de retraite ont augmenté de 30 % l'an dernier, atteignant 20,3 millions de dollars. Cette hausse reflète les coûts associés à notre nouveau rôle de gestionnaire, l'augmentation de la masse salariale et des charges sociales, pour les nouveaux membres du personnel et ceux déjà en place, l'accent mis sur les communications avec les participants et le plus grand besoin de services de consultation.

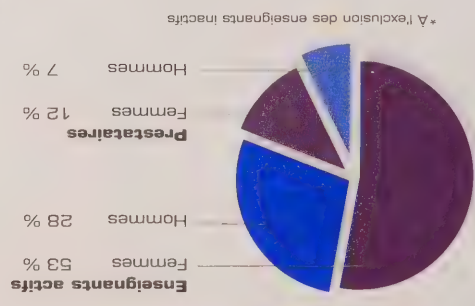
Ces charges administratives représentent un problème que nous tâchons de résoudre. Nous avons instauré de nouveaux programmes et systèmes pour contrôler et analyser les frais de tous les services que nous offrons.

Il nous faudra plusieurs années pour réaliser notre politique de placement et constituer un portefeuille équilibré, du fait même de l'importance de notre portefeuille de débentures provinciales.

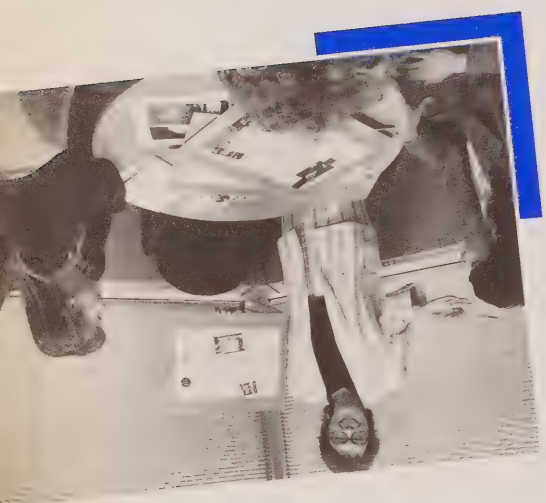
Mais l'ampleur du défi à relever nous aiguillonne à déployer tous nos efforts dans l'intérêt tant des enseignants que de la population de l'Ontario.

Perspectives

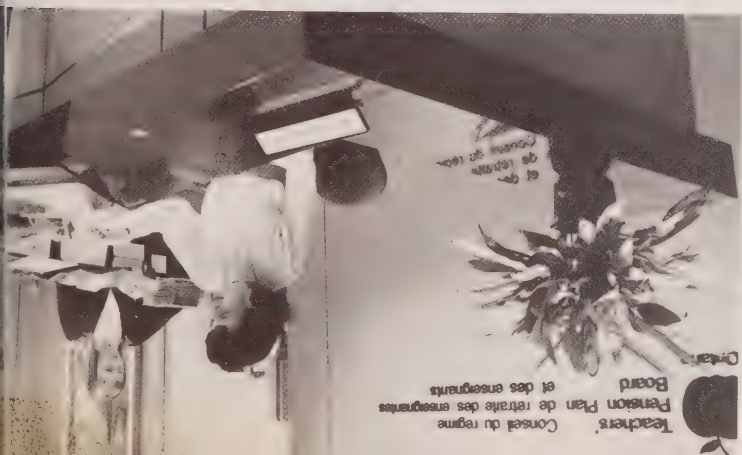
Répartition des participants *



Le président et chef de la direction,
C. Lamoureux
 Claude Lamoureux
 Le 1^{er} mai 1991



Leaders Pension Plan de retraite des enseignants
Board et des enseignants
et des enseignants



Services à la clientèle

Notre nouveau rôle de gestionnaire financier de la caisse de retraite

nécessite de grands changements.

landis que d'autres ont été entrepris

pour améliorer nos services aux par-

icipants. La direction de la nouvelle

division des services à la clientèle a

été confiée à M. William Foster, vice-

président, qui a œuvré pendant plus

de trois ans au sein de notre ancien

organisme.

Le but premier de la division est

de faciliter, aux enseignants actuels

et retraités, l'accès aux renseigne-

ments et aux services relatifs aux

rentes. Le participant fait affaire

avec la même personne, du début à la

fin d'une opération. Nous effectuons

présentement une étude auprès des

participants afin de repérer tous les

points à améliorer.

Le nombre d'enseignants partis à

la retraite en 1990 s'est situé à 2 473

comparé à 4 639 l'année précédente.

Ce dernier chiffre tient compte des

2 243 enseignants qui ont saisi la

dernière occasion de prendre une

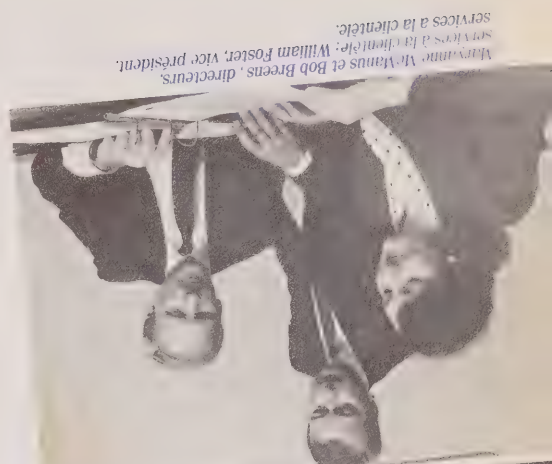
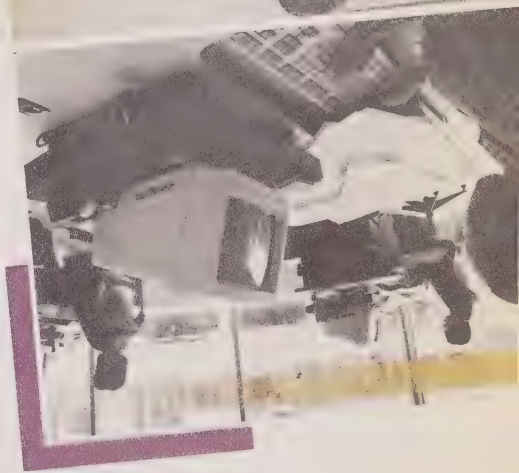
retraite anticipée sans réduction de

rente, même s'ils n'avaient pas atteint

le facteur 90. Cette option était

offerte à ceux qui avaient au moins

10 ans d'expérience et 55 ans d'âge.



Marianne McManus et Bob Breens, directeurs, services à la clientèle; William Foster, vice président.

Selon nos prévisions, il y aura environ 2 700 demandes de rente en 1991, et le nombre de nouveaux retraités ira croissant au cours des années 90 et pendant la première décennie du prochain siècle. L'enseignant moyen a 41 ans et compte 14 années de service.

Nous prévoyons également pour 1991 une forte augmentation des

demandes de rachat de cotisations.

Les enseignants ayant interrompu

leur carrière peuvent racheter les

cotisations correspondant à la pé-

riode d'absence de l'enseignement.

Plusieurs rachèteront les cotisations

qu'ils ont retirées, et d'autres en

rachèteront pour un congé de mater-

nité ou des périodes d'absence en ra-

son d'études, d'enseignement à

l'extérieur de la province ou de tra-

vail dans le commerce ou l'industrie.

Si la demande est faite après 1991, il

se peut que le rachat soit effectué au

coût actuariel des prestations corre-

spondantes.

Il va sans dire que l'augmenta-

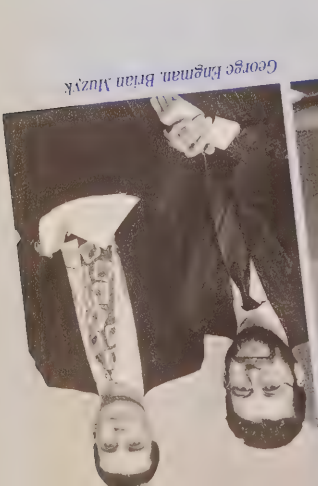
tion des rentes attribuable au rachat

entraîne aussi celle des engagements

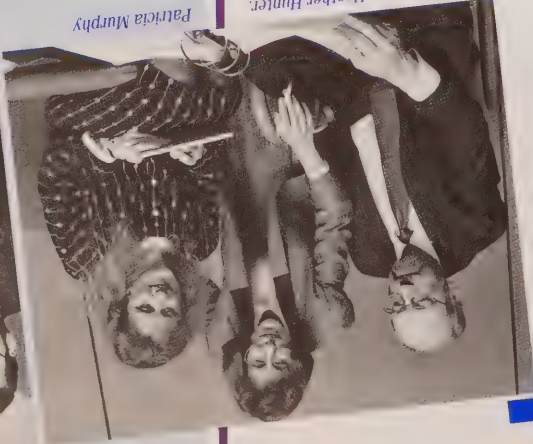
futurs du régime. Environ 30 000

enseignants pourraient ainsi aug-

menter leurs droits à retraite.



George Engman, Brian Muzysk



Robert Bertram, Heather Hunter

Division des placements

Robert Bertram, vice président principal;

ancien trésorier de Alberta Government Telephones

Patricia Murphy, vice-présidente, valeurs à revenu fixe;

ancienne vice-présidente, titres financiers à terme et options;

chez BIC/ Wood Gundy Inc.

Heather Hunter, vice-présidente, placements en actions;

Confederation Life

Lynn Patterson, gestionnaire de portefeuille, obligations du

Canada; ancienne vice-présidente, valeurs à revenu fixe; chez

BIC/ Wood Gundy Inc.

Rosemary Zigrossi, directrice, comptabilité de gestion

des placements; ancienne vice-présidente adjointe à la

Banque Morgan du Canada; comptable agréée chez Peat

Marwick Thorne

Brian Muzysk, vice-président, placements immobiliers;

ex-directeur des placements de la caisse de retraite des

enseignants du Manitoba

George Engman, vice-président, recherche et expansion;

ancien conseiller en investissements institutionnels et en

placements; ex-gestionnaire nord-américain pour le



Lynn Patterson, Rosemary Zigrossi

mieux des intérêts du régime de

retraite.

Evaluation de la dette

Le conseil de retraite a pour priorité

d'établir l'importance des engage-

ments non capitalisés du régime au

1^{er} janvier 1990. Nous avons chargé un

cabinet d'actuarial de faire une éva-

luation fondée sur la continuité de

l'exploitation; il a déposé son rapport

auprès du Trésorier de l'Ontario et du

ministre de l'Éducation, conforme-

ment à la Loi de 1989 sur le régime de

retraite des enseignants.

Selon cette loi, le conseil de

retraite ne doit déposer l'évaluation

réglementaire initiale auprès de la

Commission des régimes de retraite

de l'Ontario que sur l'avis du trésorier

et du ministre.

La loi stipule aussi que la

province est tenue de liquider, au

cours des 40 prochaines années, par

des versements spéciaux, le déficit

actuariel antérieur à 1990.

À partir de 1991, l'Institut cana-

dien des comptables agréés exige des

gestionnaires des régimes une éva-

luation comptable du coût de revient

des prestations futures pour les

années de service déjà accomplies.

Cette évaluation a révélé un déficit de

3,6 milliards de dollars. D'autres

détails apparaissent en page 14.

Changer la composition du

portefeuille représente une somme de

travail énorme. Au début de 1990,

notre actif net était de 18,5 milliards

de dollars, constitué principalement

de débentures non négociables de

l'Ontario. Puis, environ 2,3 milliards

de dollars sont devenus disponibles

pour les placements. Ces fonds pro-

venaient

des cotisations des enseignants,

des cotisations d'équivalence des

employeurs.

des versements du gouvernement

sur la dette non capitalisée anté-

rieure à 1990, et

des revenus de placement, nets

des prestations versées.

À la fin de l'exercice, 3 milliards

de dollars étaient placés en valeurs

du marché monétaire, en obligations

du Canada et en actions canadiennes

et américaines. Il restait donc

16 milliards de dollars, soit 84 %

des placements, en obligations

provinciales, ce qui témoigne bien

de l'ampleur de la tâche qu'il reste à

accomplir pour arriver à un porte-

feuille équilibré.

Droit de vote

Les placements boursiers donnent au

conseil de retraite une voix délibé-

rative dans de nombreuses sociétés.

Nous exercerons ce droit de vote au



*Claude Lamoureux
Président et chef de la direction*

bien des égards, 1990 marque un nouveau départ pour le régime de retraite des enseignantes et des

enseignants.

D'abord, nous avons assumé le

contrôle de l'actif de l'ancienne caisse

de retraite, ainsi que de la part

revenant aux enseignants dans le

Fonds d'indexation des pensions.

Ensuite, nous avons engagé des

professionnels du placement qui

assureront la diversification de l'actif

de façon prudente et ordonnée, pour

en faire un portefeuille dynamique.

Finalement, nous avons réaffirmé

notre volonté d'améliorer nos rela-

tions avec les enseignants actuels et

retraités de l'Ontario.

Ces changements reflètent notre

nouvelle qualité de gestionnaire de

fonds de placement tout en nous rap-

pelant notre rôle premier qui est

d'administrer le régime de retraite

selon les normes les plus élevées, afin

de garantir le revenu de retraite des

enseignants.

Structure

organisationnelle

Nous avons organisé nos ressources,

et notre effectif d'environ 280 em-

ployés, en deux divisions principales.

La première, celle des placements, a

de premier ordre.

Stratégie de placements

contenieux et vérification interne.

été créée en octobre 1990. Sa tâche est de gérer les placements de l'actif. La seconde, celle des services à la clientèle, a été établie en janvier 1991; elle s'occupe des droits et des rentes des participants. Ces deux divisions sont assistées par cinq services — finances, communications, ressources humaines,

Nous envisageons, à long terme,

un portefeuille dont les deux tiers

seront composés de placements en

actions et le reste en titres de créance.

Pour ce qui est du portefeuille

d'actions, il s'agira principalement

d'actions de grandes sociétés, mais

aussi d'autres éléments, tels que des

biens immobiliers. Les titres de

créance consistent surtout en place-

ments à court terme sur le marché

monétaire, en obligations provin-

ciales et fédérales et en hypothèques

Notre organisme est maintenant bien structuré et doté d'un effectif professionnel qui s'est déjà attelé à la tâche en vue de réaliser la capitalisation entière du régime.

Remerciements

Au nom du conseil d'administration, je remercie les participants au régime de l'appui et de la patience dont ils ont fait preuve pendant cette période de transition.

Je remercie également les membres du personnel de leur participation active à la poursuite des nouveaux objectifs du conseil de

retraite. Je tiens à souligner la contribution inestimable de M. Dan McArthur, qui a été pendant plus de sept ans à la tête de notre organisme prédécesseur, et chef de la direction

intermédiaire du nouvel organisme au cours du premier semestre de 1990. Nous sommes reconnaissants au

ministère du Trésor et de l'Économie de s'être chargé de nos placements pendant le premier semestre de l'exercice. Je veux aussi exprimer

notre gratitude à M. Barry Gardiner et M^{me} Joan MacCallum, membres de l'équipe transitionnelle du gouvernement, pour l'aide précieuse qu'ils nous ont apportée.

C. E. Medland



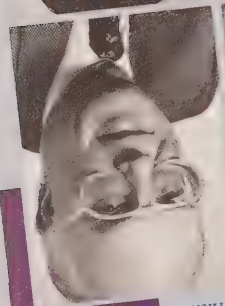
L. Sullivan



M. Wilson



M. Hicks



G. Porter



Comité des placements

Gerald K. Bouey, ancien gouverneur de la Banque du Canada. *Président du conseil d'administration.*

John H.C. Clarry, avocat-conseil chez McCarthy, Tétreault, avocats.

Gail Cook-Bennett, vice-présidente directrice de Bennecon Ltd., anciennement professeure d'économie politique à l'Université de Toronto et cadre supérieure à l'Institut de recherches C.D. Howe.

Duncan Green, ex-directeur de l'enseignement au Conseil scolaire de Toronto, et ancien sous-ministre adjoint au ministère de l'Éducation.

***Doug McAndless**, ancien enseignant des écoles publiques et ex-président de la Fédération des enseignants et des enseignants de l'Ontario. *Président du Comité de vérification et d'actuarial.*

C. Edward Medland, ancien chef de la direction de Wood Gundy Inc. *Président du Comité des placements.*

***Lyne Sullivan**, directrice de William M. Mercer Limitée et chef du service de consultation Mercer sur les droits de la personne et l'équité en matière d'emploi au Canada.

***Margaret Wilson**, secrétaire-trésorière et ex-présidente de la Fédération des enseignantes et des enseignants de l'Ontario et ancienne enseignante au secondaire.

***Martin Hicks**, conseiller en placements possédant une vaste expérience dans ce domaine au Canada et aux É.-U. et ancien cadre supérieur chez Pru-Bache.

***Gary Porter**, associé de Porter Hétu, complètes généraux licenciés, et ex-directeur des placements et des fiduciaires dans une importante société de fiduciaire.

* nommé(e) par la Fédération des enseignantes et des enseignants de l'Ontario

Au nom du conseil d'administration,

Le président,

Gerald K. Bouey
Le 1^{er} mai 1991

cière du régime en contrôlant le travail des vérificateurs internes et externes. Il doit aussi s'assurer que les engagements du régime fassent l'objet d'une évaluation indépendante tous les trois ans.

— *Le Comité des placements établit la politique relative à la composition du portefeuille et les directives de placement, approuve les placements dont la valeur dépasse le montant fixé, et contrôle le rendement global des placements. Tous les administrateurs siègent à ce comité, ainsi que deux représentants nommés par la Fédération des enseignantes et des enseignants de l'Ontario.*



J. Clary



G. Cook-Bennett



D. Green



D. McAndless

Chef de la direction

Vu la complexité et l'étendue des nouvelles attributions du Conseil du régime de retraite, l'une des tâches les plus pressantes qui nous attendaient en 1990 a été la recherche d'un candidat au poste de chef de la direction. Nos démarches ont abouti à l'engagement, en août dernier, de M. Claude Lamoureux. Ayant passé 25 années dans le secteur des services financiers au Canada et aux États-Unis, M. Lamoureux possède une expérience consommée de tous les aspects de la gestion des placements, de l'actuariat et des régimes de retraite. Nous avons aussi engagé M. Robert Bertram, ancien trésorier de Alberta Government Telephones, au poste de vice-président de la division des placements.

Réorganisation

Au cours des derniers mois, plusieurs professionnels du placement ont été engagés pour mener à bien la constitution d'un portefeuille diversifié. D'autres changements organisationnels sont aussi intervenus, y compris le remaniement du personnel de direction, pour améliorer la qualité des services offerts aux enseignants actuels et aux retraités.

quitte de ses fonctions relatives à l'administration et au placement, aux termes de la Loi de 1989 sur le régime de retraite des enseignants et se con- forme aussi à certaines dispositions de la Loi de 1987 sur les régimes de retraite.

Le conseil d'administration, qui se réunit tous les mois, établit l'orien- tation générale des politiques, tandis qu'il confie au chef de la direction et à son personnel la gestion des affaires courantes.

Comités du conseil d'administration

Trois comités ont été créés pour s'occuper des secteurs sensibles. Chaque comité se compose d'un nombre égal de représentants du gouvernement et des enseignants. On trouvera à la fin du rapport la liste des membres de ces comités.

— *Le Comité d'appel* entend les appels de décisions du personnel en certaines matières, telles que le droit à la rente et les droits acquis. Le comité a entendu 17 appels en 1990 : la plupart prove- nient d'enseignants dont la demande de rachat de colisa- tions avait été rejetée. Dans les deux tiers des cas, la décision du personnel a été maintenue.

— *Le Comité de vérification et d'ac- tualité* veille à l'intégrité finan-

cière que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Conseil d'administration

Le groupe enthousiaste d'admi- nistrateurs qui voient à l'exécution du mandat de la société possèdent une longue expérience et des compé- tences aussi grandes que variées.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Nous venons d'accomplir un exercice qui restera mémorable dans les annales du régime de retraite des enseignants et des enseignants de l'Ontario. Depuis l'établissement du régime il y a plus de 70 ans, une nou- velle loi nous permettait de faire, pour la première fois, des placements en d'autres titres que les débiteurs provinciaux non négociables. Nous n'y avons pas tardé — d'abord par l'acquisition sur le marché monétaire de valeurs à court terme et de haut rendement, telles que les bons du Trésor et les dépôts en banque, et un certain temps après, par l'achat d'actions et d'obligations.

Conseil d'administration

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Le conseil d'administration veille à ce que le conseil de retraite s'ac- tuelle.

Gerald K. Bouey
Président du
conseil d'administration



États financiers sommaires

(en millions de dollars)

Évolution des fonds disponibles pour l'exercice terminé le 31 décembre

1990 1989
Augmentation (Diminution)
%

Provenance des revenus

Revenus de placement - 90 % sont attribuables aux débiteurs de la province de l'Ontario	1 958	28	1 532
Cotisations des participants	526	42	371
Cotisations de la province de l'Ontario, y compris les intérêts	579	43	404
Cotisations d'autres employeurs	8	42	6
Cotisations de la province de l'Ontario au titre des engagements non capitalisés	187	83	18
Autres sources de revenus	33		
Total des revenus gagnés	3 291	41	2 331

Affectation des revenus

Diminution de la valeur du marché des placements au cours de l'exercice	926		
Coûts des prestations	761	70	448
Frais d'administration	20	30	16
Total des revenus affectés	1 707	268	464

Augmentation des coûts estimatifs des prestations

	1 584	(15)	1 867
Total des coûts estimatifs des prestations	1 770		

(Augmentation de l'insuffisance) des fonds disponibles

	(186)		
--	-------	--	--

Situation à la fin de l'exercice

Fonds disponibles

Placements à revenu fixe principalement détenus sous forme de débiteurs de la province de l'Ontario	16 245	(6)	17 262
Placements sur le marché monétaire	1 385	394	281
Actions	1 324		
Cotisations à recevoir, principalement de la province de l'Ontario	945	27	744
Intérêts et dividendes à recevoir	502	8	464
Encaisse	709		27
Total des fonds investis	20 401	18	18 778
Ajustement aux valeurs du marché pour mitiger les fluctuations ⁽³⁾			
Total des fonds disponibles	21 110	9	18 778

Affectation future des fonds

Coût estimatif des prestations à verser avant le 31 décembre	24 391	11	21 912
Autres éléments de passif	277	16	238
Total de l'affectation future des fonds	24 668	11	22 150

(Insuffisance) des fonds disponibles

	(3 558)	6	(3 372)
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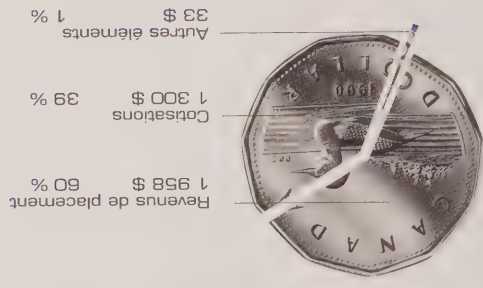
(1) Après retraitement à la valeur du marché, aux fins de la comparaison.

(2) Variation selon les chiffres des états financiers vérifiés et non pas sur les chiffres ci-dessus, lesquels ont été arrondis.

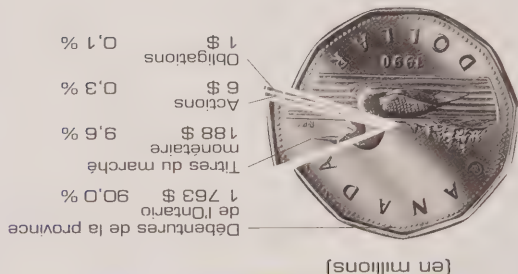
(3) Aux fins de l'évolution des éléments de passif, les gains et les pertes matérialisés et non matérialisés sont répartis sur cinq ans.



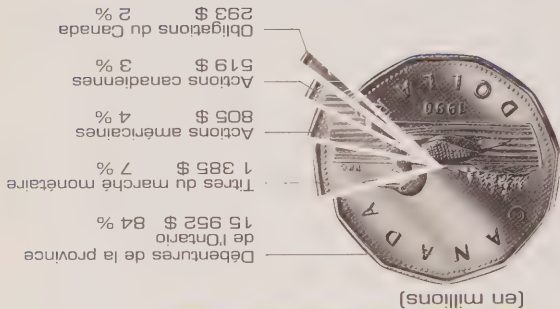
Augmentation de l'actif en 1990



Revenus de placement en 1990



Composition du portefeuille à la valeur du marché en 1990



Cotisations de 1990

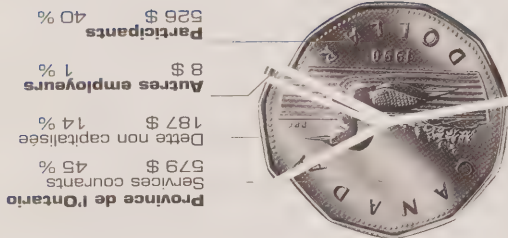


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Engagement du chef de la direction

Engagement du vice-président principal aux placements

Création de la division des placements et engagement de gestionnaires de portefeuille professionnels

Elaboration d'une stratégie de placement et d'une politique de diversification de l'actif

Expansion des placements sur le marché monétaire canadien

Premiers placements en actions et en obligations canadiennes et américaines

Réorganisation pour la création de la division des services à la clientèle

Profil

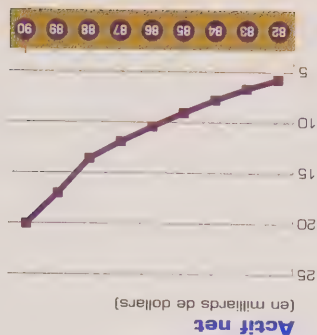
Le Conseil du régime de retraite des enseignantes et des enseignants fondé en 1990 par la province de l'Ontario. Le conseil de retraite assume deux responsabilités fondamentales : L'administration du régime de retraite des enseignantes et des enseignants de la province aux niveaux élémentaire et secondaire. Le régime compte environ 160 000 enseignants actifs, 88 000 enseignants inactifs et 39 000 retraités. La gestion de l'actif du régime de retraite, affichant un actif de plus de 20 milliards de dollars, le régime se classe parmi les plus importants établissements financiers du Canada. Depuis la fondation du régime en 1917, ses placements étaient restreints aux débtures de l'Ontario. La nouvelle loi donne au conseil de retraite le droit de poursuivre une stratégie de diversification des placements pour contribuer, à long terme, à la capitalisation entière du régime. L'actif se composera d'actions de grandes sociétés, de placements à court terme et d'obligations gouvernementales, ainsi que d'autres investissements. Le gouvernement de l'Ontario est le promoteur du régime de retraite, conformément à la Loi de 1989 sur le régime de retraite des enseignants. Le gouvernement provincial nomme les huit membres du conseil d'administration ; sur ce nombre, cinq sont désignés par le ministère de l'Éducation et trois par la Fédération des enseignantes et des enseignants de l'Ontario.

Renseignements financiers choisis

au 31 décembre		(en millions de dollars)	
Débtures de la province de l'Ontario		15 952	
Autres éléments d'actif		4 443	
Ajustement aux valeurs du marché pour mitiger les fluctuations		20 407	
Total de l'actif		21 110	
Coût estimatif des prestations		24 397	
Autres éléments de passif		27	
Total du passif		24 663	
Excédent du passif sur l'actif (déficit)		(3 558)	

Les renseignements financiers de 1990 diffèrent de ceux des exercices précédents. Pour la première fois, l'actif est comptabilisé à la valeur du marché. Auparavant, l'actif était évalué au prix coté. Les chiffres de 1990 réunissent l'actif de l'ancienne caisse de retraite des enseignants et une partie de l'actif du Fonds d'indexation des pensions établi par

le gouvernement provincial. Cette partie couvrait la revalorisation des rentes en fonction du coût de la vie. Les résultats de 1990 ne sont donc pas entièrement comparables avec ceux des exercices antérieurs : on doit plutôt les considérer comme des points de référence sur lesquels fonder les futures comparaisons.



Faits saillants



RAPPORT ANNUEL 1990 DES PLACEMENTS DANS VOTRE AVENIR





Teachers'
Pension Plan
Board

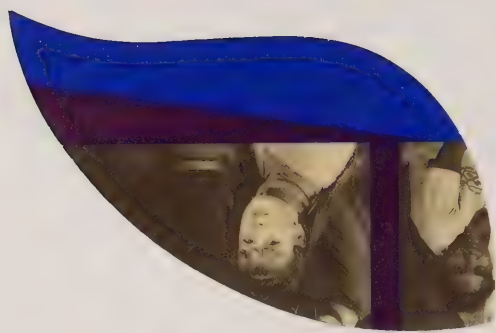
Conseil du régime
de retraite des enseignantes
et des enseignants

Gouvernement
Publication

CA20N
DE180
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• A N N U A L • R E P O R T • 1 9 9 1 •





Improving Our Service to You

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Corporate
Directory 39

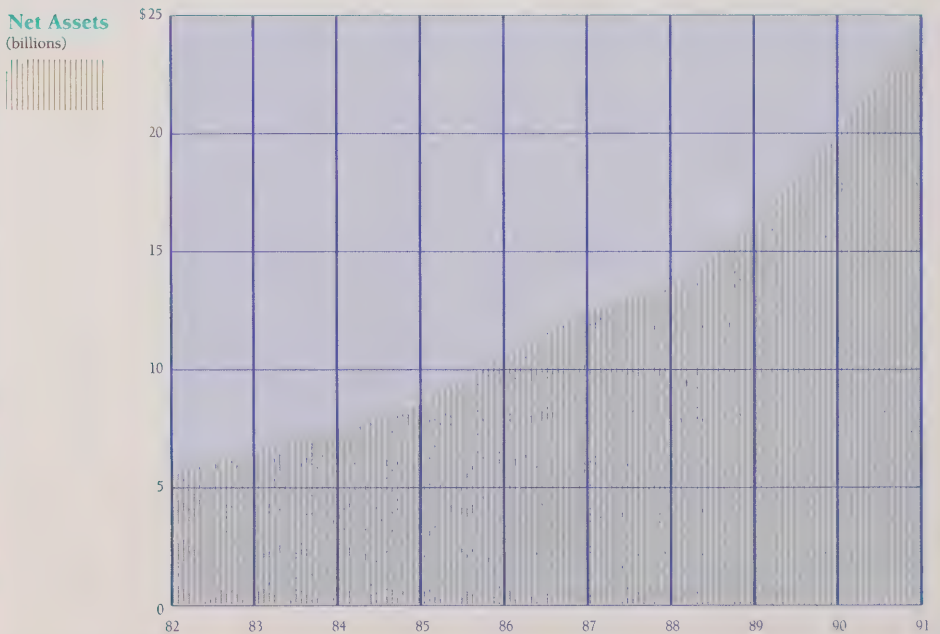


The Ontario Teachers' Pension Plan Board is a corporation established in 1990 by the Province of Ontario. It administers the defined benefit pension plan, which is indexed to inflation, on behalf of the province's 160,000 elementary and secondary school teachers, 88,000 former teachers, and 40,000 retired teachers. The pension board manages the plan's assets, which exceeded \$24 billion at the end of 1991. These assets rank the plan among the largest financial institutions in Canada.

Originally created in 1917, the teachers' pension plan had been restricted to investing in non-marketable Ontario debentures. Since 1990, the pension board has been empowered to diversify investments to help make the plan fully funded over the long term. The asset mix now includes shares in publicly traded corporations, investments in private businesses, ownership of income-producing real estate properties, and investments in money market securities, government bonds, and index-linked mortgages.

The pension plan is sponsored in partnership by the provincial government and the Ontario Teachers' Federation. The nine-member board of directors consists of four nominees each by the Ministry of Education and the OTF, with the two partners jointly appointing the chairperson.

Net Assets
(billions)



FINANCIAL HIGHLIGHTS

as of December 31

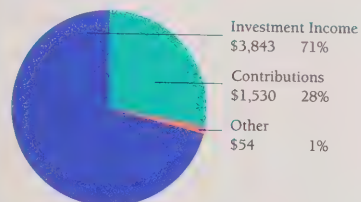
(millions of dollars)

1991

Province of Ontario debentures	18,190
Equities	4,414
Fixed income securities	1,186
Real estate	180
	23,970
Receivable from Province of Ontario	1,190
Other assets & liabilities	(463)
	24,697
Adjustment to smooth market value fluctuations	(883)
Total assets	23,814
Estimated cost of benefits	27,479
Deficiency	3,665

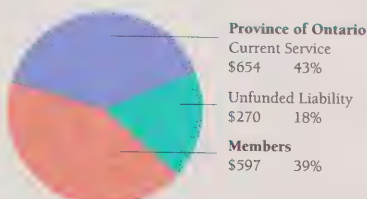
1991 Revenue

(millions)



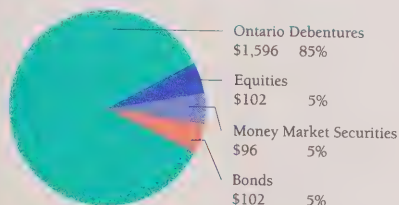
1991 Contributions

(millions)



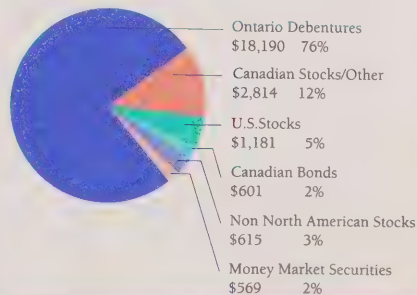
1991 Realized Investment Income

(millions)



1991 Asset Mix at Market Value

(millions)



SIMPLIFIED FINANCIAL STATEMENTS

(millions of dollars)	1991	% Increase (Decrease)	1990
How revenue was earned			
Investment income	3,843	272.4	1,032
Member contributions	651	16.5	559
Provincial contributions	663	12.9	587
Provincial payments toward unfunded liability	270	44.4	187
Total revenue	5,427	129.5	2,365
How revenue was used			
Benefits, refunds and transfers	829	8.9	761
Administrative costs	25	25.0	20
Total expenditures	854	9.3	781
Increase in net assets before increase in cost of future benefits and market value change	4,573	188.7	1,584
Increase in cost of future benefits	3,088	24.6	2,479
Change in market value adjustment	(1,592)	—	709
Increase in deficiency	107		186

POSITION AT YEAR END

(at market value)

Where money was invested			
Provincial debentures ⁽¹⁾	18,190	10.6	16,450
Other fixed-income securities	1,186	(29.4)	1,680
Equities	4,414	232.9	1,326
Real estate	180	—	—
Contributions earned but not yet received	1,190	25.9	945
Other assets and liabilities	(463)	67.1	(277)
Total money invested	24,697	22.7	20,124
Adjustments to smooth market value fluctuations ⁽²⁾	(883)	—	709
Total money available	23,814	14.3	20,833
Future use of money			
Estimated cost of future benefits	27,479	12.7	24,391
Deficiency	3,665	3.0	3,558

(1) The increase in provincial debentures reflects solely an increase in market value.

(2) For the purpose of valuing liabilities, realized and unrealized gains and losses are amortized over five years.

CHAIRPERSON'S REPORT

The Ontario Teachers' Pension Plan Board is entering a new stage in its history. It will operate under a co-sponsorship arrangement between the provincial government and the Ontario Teachers' Federation (OTF).

From 1917 until 1989, the plan and its administrative body were in many respects extensions of government. In addition, all investments were restricted by legislation to non-assignable, non-negotiable and non-marketable provincial debentures.

On January 1, 1990, new legislation created the Ontario Teachers' Pension Plan Board, which has two basic goals – to improve the quality of teachers' pension services, and to diversify the plan's investments. These goals necessitated a transformation to a more dynamic organization as both plan administrator and investment manager.

The changes underscored a shift from the plan's dependency on government to a position of self-funding over the long term. In the meantime, as the original plan sponsor, the government remains responsible for the unfunded liability accumulated up until December 31, 1991.

The final transition to an arms-length relationship with government got underway in August, 1991 when discussions between the Ministry of Education and OTF resulted in an agreement to form a co-sponsor partnership. The agreement, effective January 1, 1992, means that the teachers now share the management of the plan and the financial responsibility for it.

The final transition to an arms-length relationship with government got underway in August 1991.

PARTNERSHIP AGREEMENT

As co-sponsors, the teachers and government will ultimately share equally in any future surplus or unfunded liability. These gains or losses will be determined by an independent valuation conducted at least every three years.

The move to financial equality will be gradual. The government's direct share of losses or gains continued at 100 per cent until the end of 1991. It will decrease to 80 per cent in 1992 and 1993, 70 per cent in 1994 to 1996, and reach 50 per cent in 1997.

The partnership agreement contains a formal triennial process for negotiating changes to the plan, such as benefits and contribution rates. If agreement cannot be reached there will be arbitration, although the arbitrator will be restricted to a 0.5-per-cent maximum increase in the plan's contribution rate.



BOARD OF DIRECTORS

The partnership brings equality of representation to the board of directors. Both parties now nominate four directors and jointly select the chair. Each director is eligible for a two-year term to a maximum of four terms.

I am honored to have been asked by both partners to continue as Chairperson. I am also pleased that the Board of Directors includes the four present nominees of the Ministry of Education and the three existing nominees of the OTF. This continuity of knowledge and expertise is important during a period of change. The teacher and government nominees have worked well as a team during the past two years.

Joining the Board as the OTF's fourth director is Martin Hicks, an investment consultant with extensive experience in the Canadian and American securities industries. Mr. Hicks has served for the past two years as a member of our Investment Committee and is, therefore, familiar with the Board's investment strategy and operations.

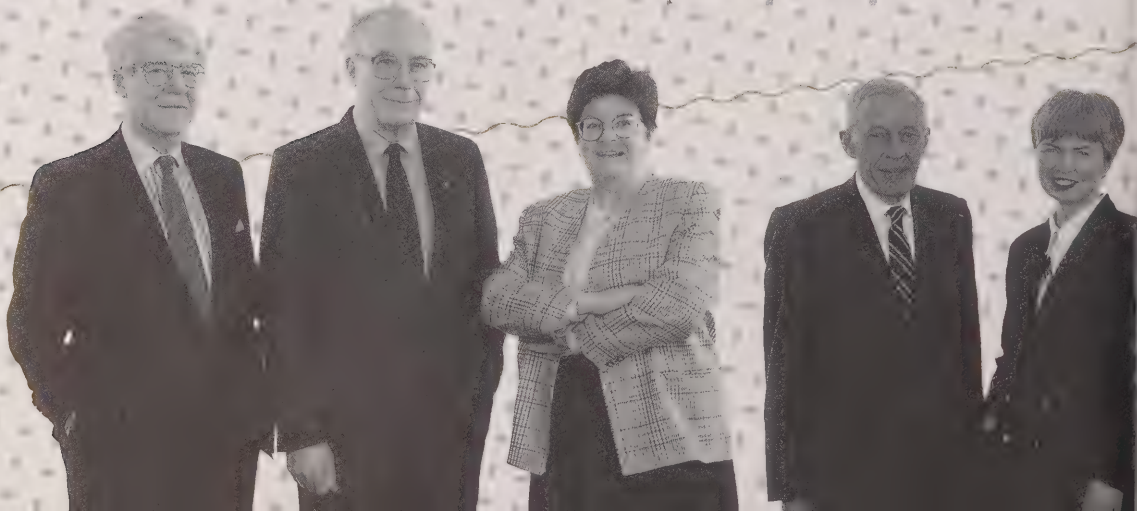
Gary Porter, a certified general accountant and former investment and trust manager with a major trust company, continues as a member of the Investment Committee.

The directors are responsible for ensuring that management complies with the provisions of the *Teachers' Pension Act* and the *Pension Benefits Act*. They meet monthly, and provide overall policy direction and approval, with day-to-day management delegated to the chief executive officer and his staff.

BOARD COMMITTEES

The Board of Directors has three committees:

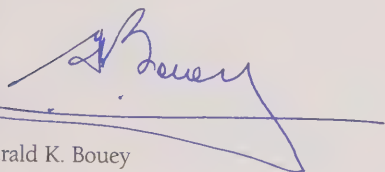
- The *Benefits Adjudication Committee* hears appeals by plan members concerning decisions made by management on matters of entitlement. In 1991, 14 appeals were heard.
- The *Audit and Actuarial Committee* protects the plan's financial integrity by overseeing the work of internal and external auditors. It is also responsible for ensuring that the plan's liability is independently valued at least every three years.
- The *Investment Committee* sets the asset mix policy and investment guidelines, and approves individual investments that exceed specified dollar limits. All directors are members of this committee. A major accomplishment in 1991 was the development of a long-term strategic plan with specific asset mix targets and related performance measurements.



The teacher and government nominees have worked well as a team during the past two years.

ACKNOWLEDGEMENTS

On behalf of the directors, I wish to thank all employees of the pension plan board for the progress they have made in working to improve the quality of services to the province's teachers and in diversifying the plan's assets in an orderly and responsible manner.



Gerald K. Bouey

Chairperson

March 10, 1992

BOARD OF DIRECTORS

(left to right)

C. Edward Medland, former Chief Executive Officer of Wood Gundy Inc. *Chairperson of the Investment Committee.*

Gerald K. Bouey, former governor of The Bank of Canada. *Chairperson of the Board.*

Margaret Wilson, Secretary-Treasurer of the Ontario Teachers' Federation, past president of the federation, and former secondary school teacher.

John H.C. Clarry, counsel with McCarthy, Tétrault, barristers and solicitors.

Lynne Sullivan, principal with William M. Mercer Limited and leader of the Mercer human rights and employment equity consulting practice in Canada.

Martin Hicks, investment consultant with extensive experience in the Canadian and U.S. investment industries, and former senior executive at Pru-Bache Securities.

Doug McAndless, former public school teacher and past president of the Ontario Teachers' Federation. *Chairperson of the Audit and Actuarial Committee.*

Gail Cook-Bennett, Executive Vice-President of Bennecon Ltd., former economics professor at the University of Toronto and senior executive with the C.D. Howe Research Institute.

Duncan Green, former Director of Education for the Toronto Board of Education and Assistant Deputy Minister with the Ministry of Education. *Chairperson of the Benefits Adjudication Committee.*



PRESIDENT'S REPORT

The resources of the pension board are directed at fulfilling two basic missions. One is to diversify the assets in the plan so that they provide a solid financial base to meet the retirement income needs of our clients. The other is to provide those 288,000 members, who include active and former teachers as well as pensioners, with pension-related services of high quality.

In both respects, we made progress in 1991, although our task is far from complete.

ORGANIZATIONAL CHANGES

Our objective is to operate as a corporation that is accountable to its co-sponsors, the provincial government and the Ontario Teachers' Federation, in accordance with our enabling legislation. This means that, within the prudent risk management expected of a pension plan, we attempt to follow business practices similar to those of a private sector corporation.

During 1991, we devoted considerable attention to building the best organization to carry forward our responsibilities. We also strengthened the senior management team with the appointment of three vice-presidents: finance, management information services, and corporate affairs and communications.

Total permanent staff increased from 223 to 233 during the year. The large volume of additional work in the last third of the year necessitated the hiring of temporary employees. Coupled with staff overtime, this short-term measure was equivalent to having 40 additional full-time employees.



Permanent staff are employed in five major divisions:

- The *Investments Division* started 1991 with a staff of three. By year end, it had 21 employees, including specialists in all areas of investment permitted under our mandate – stocks, bonds, money market securities, real estate, and private placements. Further staff growth will be needed to handle the increasing volume of investment activity and to implement specialized components of our asset mix policy.
- The *Client Services Division* employs approximately 50 per cent of total staff. During 1991, the volume of services and contact with teachers and retirees increased substantially. We are concentrating on raising productivity further in 1992.
- The *Finance Division* is responsible for financial management and reporting. It is charged with introducing new financial systems to improve managerial and operational efficiencies. The division includes the investment accounting department, which grew during the year from one to eight employees.
- The *Management Information Services Division* is responsible for computer systems, and bringing about improvements in the accuracy of the data base and its responsiveness to client enquiries.
- The *Corporate Affairs and Communications Division* includes human resources, legislative support, communications, and administrative services.

INVESTMENT STRATEGY

We have prepared a long-term strategic plan that sets asset mix and performance targets for specific types of investment. The objective is to produce optimum investment returns over time at a moderate level of risk. Following a prudent investment philosophy protects the security of assets and emphasizes reliability of income.

The plan's ultimate asset mix target is heavily weighted to equities, which will make up at least two-thirds of the total investment portfolio in the long term. Equities consist of shares in publicly traded corporations, investments in private businesses, and ownership of income-producing real estate.

Although stocks can be volatile in the short term, with markets prone to cyclical surges and downturns, historically they have produced higher real rates of return (that is, the rate of return above inflation) than fixed-income securities. Fixed-income securities include money-market investments, bonds, mortgage products, and provincial debentures.

The objective is to produce optimum investment returns over time at a moderate level of risk.

INVESTMENT PROGRESS

We are pleased with both the diversification and investment performance achieved during our first two years under the new legislated mandate.

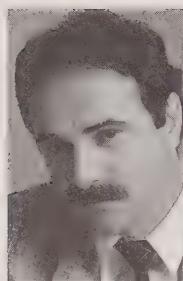
We began 1990 with investments of \$18 billion, virtually all of which was provincial debentures. At the end of 1990, we had \$19.5 billion invested, of which Ontario debentures represented 85 per cent. By the end of 1991, investments totalled \$24 billion. Despite our diversification efforts, debentures were 76 per cent of total investments as their market value increased by \$1.8 billion during the year as a result of lower interest rates.

Stocks represented 18 per cent of total investments and involved the commitment of substantial sums of money over a short period of time. By the end of 1991, \$4.4 billion was invested in the shares of Canadian, American and non-North American corporations.

This is one of the largest stock portfolios in Canada. It was created by retaining eight external fund managers to purchase shares that mirror the *Toronto Stock Exchange 300 Index* and the *Standard & Poor's 500 Index* on the New York Stock Exchange, as well as the purchase of shares of companies in Europe and the Pacific Rim. This mix of shares in publicly traded corporations around the world spreads investment risk and should enable the plan to enjoy the benefits of different global economies.

P
resident's
Report





We are pleased with both the diversification and investment performance of the real estate portfolio since its inception under the new legislative mandate.

In addition, we assembled our own team of specialists to create an internally managed Canadian stock portfolio. By year end, more than \$600 million was invested in this portfolio.

Our commitment to portfolio diversification also produced our first investments in real estate with the \$180-million acquisition of a 50-per-cent interest in three large shopping centres that dominate their retailing markets in Richmond Hill, Winnipeg and Regina. We anticipate strong growth of the real estate portfolio in 1992 with the acquisition of ownership positions in further shopping centres as well as office buildings and industrial properties.

We also launched a private placement program in 1991. This involves investments in smaller privately owned business enterprises that offer the prospect of good growth. More than \$100 million was committed to seven business opportunities during the year.

During 1991, we created a marketable bond portfolio that had a value of \$601 million by year end. This represented 2.5 per cent of total investments. Short-term securities declined to \$569 million, or 2.4 per cent of total investments, from \$1.4 billion a year ago as we converted these securities into long-term commitments in other assets.

Overall, the performance of the total investment portfolio was very good last year, producing a rate of return of 19.6 per cent, compared with 5.6 per cent a year earlier. A major contributing factor was the sharp rise in the market value of fixed-income securities during the year as interest rates declined. For the first two years under the new investment mandate, the *real* rate of return (that is, after removing inflation) averaged 8 per cent. This was well ahead of our long-term target of exceeding the rate of inflation by 4.5 per cent.

CLIENT SERVICES

We have been working hard to improve the quality of our service and personal attention to our clients. Our new policy of providing each current or retired teacher with a single point of contact for information and services took effect during the year. The amount of contact between staff and members escalated as a result of this policy and, in particular, of teachers' overwhelming response to the "buy-back" program which ended in 1991. On a monthly basis, we received as many as 23,000 calls and made 12,000 to 14,000 outgoing calls.

The "buy-back" program enabled teachers to purchase additional credited service at a cost much lower than the actual cost to the plan. We launched an information blitz to advise teachers of their opportunity to buy back credit. More than 30,000 teachers responded, which created a backlog in handling their applications. Our objective is to clear the backlog by mid-1992.

We reach members through a variety of information-sharing initiatives. An example is our participation in the regional workshops on retirement

planning sponsored by the Ontario Teachers' Federation. Contact was made with as many as 1,500 teachers on an individual basis during 11 workshops in 1991.

Another example is the provision of expanded services. In the past, interviews were by appointment only. This year, we extended our Monday to Friday business hours from 8 am to 5.30 pm and began to accept "walk ins" which contributed to a 150-per-cent increase in head office interviews.

A further example was the integration of pension projections with the annual statement of benefits for members over 50. We were also able to mail out T4As to pensioners two months ahead of the February deadline at the same time as we informed members of their escalated payments for 1992.

We have been working hard to improve the quality of our service and personal attention to our clients.

Approximately 45 per cent of teachers are in the 40 to 49 age group. As the average retirement age is 58, these clients are approaching the time when information about their retirement entitlements is important. We are providing the information they need to make their retirement decisions.

The number of pensioners increased marginally last year to 39,700, including 1,930 teachers who retired in 1991, compared with 2,470 retirements in the previous year. We expect approximately 2,200 applications for pension benefits in 1992. The average age of pensioners is 69, and their retirement benefits average \$21,100 per year.

Our attempts to improve client service are far from complete. Much needs to be done, for example, on improving the accuracy of our data base. In 1991, we concentrated on reconciling our administration files so that we have consistent information on each teacher. We also began a review of the rules used to make pension calculations. In 1992, we will complete this work and make the appropriate adjustments.

Currently, we deal with 284 employers, principally school boards but also designated organizations and private schools. These employers range in size from the Metropolitan Toronto Separate School Board with 8,000 teachers to a school with one teacher. To enhance the administration of the pension plan, staff visited many employers during the year to discuss improvements in the quality of data submitted. One result was a simplification of the formula for calculating government and employee contributions to the plan.

We are pleased with the progress being made with employers in reconciling their records with our records. By the end of 1992, the backlog of unreconciled data accumulated since 1984 should be cleared. We thank employers for their cooperation on this project.





ADMINISTRATIVE COSTS

The cost of managing the pension board increased from \$20.3 million in 1990 to \$25.4 million in 1991. Four expenditure categories accounted for most of the increase.

- Salaries and benefits rose by \$2.2 million, principally from the hiring of investment specialists and senior executives.
- Investment management fees increased by \$1.3 million as we diversified into stocks and other assets. These costs will continue to rise in step with the expansion of investment activities.
- Fees for safekeeping services and for professional consulting services increased by \$435,000 and \$529,000 respectively, also as a direct result of the asset diversification program.

Other costs rose in response to the increased demand for services from members throughout the province.

A corporate objective for 1992 is to improve productivity to ensure that our operations are cost competitive with other providers of financial services. We are developing benchmarks, such as the cost per member for administrative expenses and the ratio of investment costs to asset values. These measurements will be useful in monitoring performance.

Administrative Expenses

(thousands of dollars)	1991	1990
Salaries and benefits	13,720	11,506
Premises and equipment	4,293	3,794
Professional consulting services	2,505	1,976
Communication and travel	1,873	1,785
Investment management fees	1,323	55
Custodial and banking fees	747	312
Stationery and supplies	537	564
Board and committee remuneration	146	148
Audit fees	136	82
Publications and regulatory fees	63	41
Other	58	40
Total	25,401	20,303

A corporate objective for 1992 is to improve productivity to ensure that our operations are cost competitive with other providers of financial services.

OUTLOOK

We are still three or four years away from achieving our minimum asset mix target of two-thirds equity and one-third fixed income securities, largely because it will take some time to acquire sufficient equity assets to overcome the weight of the debenture portfolio. However, we are well organized to move portfolio diversification forward in an orderly and planned manner and achieve acceptable long-term rates of return.

We thank teachers for their patience during this period of transition as we continue to make changes to the organization to improve member services. We have set specific goals and objectives for 1992 that include targets for measuring investment and client service performance. More changes will be introduced as part of our commitment to quality service.

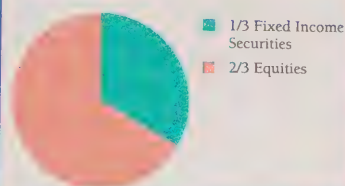
Claude Lamoureux

President and Chief Executive Officer

March 10, 1992

The pension board is committed to disclosure of its investment activities and financial performance to plan members, the sponsoring partners, employers, and the investment and business communities. In this respect, the pension board has decided to meet the reporting standards of public companies. This section of the Annual Report attempts to disclose and discuss financial material in a manner that should assist stakeholders in viewing our performance through the eyes of management.

Asset Mix Goal



Investments at December 31, 1991

(millions of dollars)

	Market	Cost
Province of Ontario debentures	18,190	15,944
Money market securities	569	569
Foreign stocks	1,796	1,504
Canadian stocks	2,618	2,537
Canadian bonds	601	584
Real estate	180	180
Mortgages	16	16
	23,970	21,334

*M*anagement
Discussion
and
Analysis





GENERAL INVESTMENT POLICY

The pension board manages the plan's investments to earn the best possible rate of return, consistent with a moderate level of risk.

Teachers' pension payments are linked to the Consumer Price Index to a maximum inflation adjustment of 8 per cent in a single year, with any excess carried forward. Our goal is to generate sufficient cash flow above the inflation rate to cover the cost of these indexed benefits.

Our long-term objective is a real rate of return of 4.5 per cent per annum on a four-year moving average. We expect to meet this target consistently once the portfolio is appropriately diversified.

Our goal is to generate sufficient cash flow above the inflation rate to cover the costs of indexed benefits.

LONG-TERM INVESTMENT STRATEGY

We are assembling an investment portfolio that will balance different risk profiles, based upon a long-term asset mix target that is at least two-thirds equity and one-third fixed-income securities.

• Canadian equities

We will be a major participant in the Canadian stock market by buying shares that mirror the *TSE 300 Index* on the Toronto Stock Exchange and by developing our own active stock portfolio. The available capitalization listed on the *TSE 300* is about \$173 billion. Because of the limited size of the market, it will take some time for us to assemble the large portfolio of Canadian shares called for under our approved asset mix strategy. Stock markets are volatile in the short term and can produce negative returns within a single year. However, the shares of major corporations produce rising dividend income and capital appreciation over longer economic cycles, which are consistent with our long-term investment horizons.

• U.S. equities

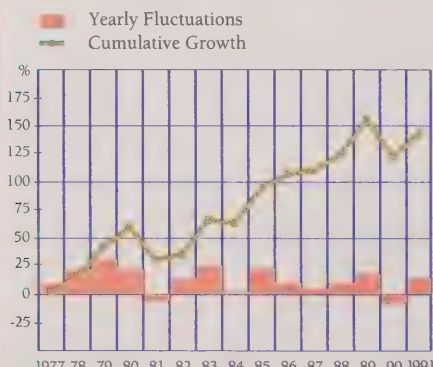
Our U.S. stock portfolio matches the *Standard & Poor's 500 Index* on the New York Stock Exchange. This index has capitalization of \$2.8 trillion and offers substantial liquidity in buying and selling shares.

• Non-North American equities

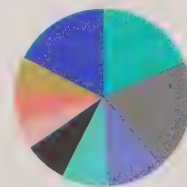
Equity risk is being diversified further by acquiring shares in companies elsewhere in

Real Rate of Return on Investment

(Assuming target asset mix of 2/3 equities 1/3 long term bonds)



1991 Canadian Stocks by Sector



* Includes communications, management companies, transportation, paper and forest products, real estate and construction.

the world. These investments enable us to benefit from the different growth cycles of non-North American economies.

• *Income properties*

Income-producing real estate offers superior long-term investment returns. Rental income normally comprises 70 per cent of total investment performance, with capital growth representing 30 per cent. Real estate, however, has low liquidity compared with stocks and bonds. The current economic cycle has improved the choice of quality income properties available for investment.

• *Private placements*

We have begun to acquire equity positions in private corporations that offer good growth potential at reasonable risk. We will also consider resource properties, and other special situations that hold the prospect of good long-term growth at limited risk.

• *Bonds and mortgages*

Fixed-income investments are less volatile than stocks and produce more predictable long-term returns. While a small part of our asset mix, these investments include federal and provincial bonds, as well as mortgage investments tied to the inflation rate.

• *Money market investments*

We receive and generate large amounts of cash flow on an annual basis. While we are negotiating investments in long-term assets, surplus cash is invested in such short-term opportunities as treasury bills and bank deposits. These investments also provide liquidity to meet routine payment obligations.

1991 ASSET DIVERSIFICATION

During 1991, we were active in all asset classes identified under our investment strategy. The emphasis was on acquiring equities, principally by expanding Canadian stock holdings and, for the first time, entering international stock markets. We also made our first investments in Canadian real estate and in private growth enterprises. As a result, equities were approximately 18 per cent of total investments at year end, compared with just under 7 per cent a year earlier.

In the case of fixed-income securities, we expanded the bond portfolio and entered the index-linked mortgage market.

CANADIAN STOCK INVESTMENTS

Canadian stock holdings grew by \$2.1 billion to \$2.6 billion at year end, representing 11 per cent of total investments. Reflecting the nature of the Canadian economy, 25 per cent of these shares were in resource companies, including mining, paper and forestry. Pipelines and utilities made up 20 per cent, with financial services companies at 18 per cent and industrial product firms at about 10 per cent. Smaller proportions were invested in consumer products, merchandising, management companies, media and communications, transportation, and real estate and construction.



Most of the 1991 Canadian stock activity involved three external fund managers managing portfolios that mirror the *TSE 300 Index*. We began to assemble an actively managed stock portfolio by selecting shares in companies that we believed were undervalued. The objective of this portfolio, which had a year-end market value of more than \$600 million, is to outperform the *TSE 300 Index*.

U.S. STOCK INVESTMENTS

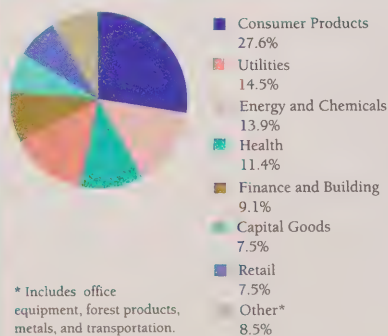
The value of the U.S. stock portfolio expanded by \$373 million to total \$1.2 billion at year end. These investments, most of which were made in 1990, were directed through an external fund manager to simulate the *S&P 500 Index*.

Reflecting the different character of the U.S. economy, consumer products firms make up 28 per cent of the portfolio, followed by utilities at 15 per cent, energy and chemical firms at 14 per cent, and health firms at 11 per cent.

U.S. stocks represented 5 per cent of the total asset mix and were within the prescribed range for this asset class.



1991 U.S. Stocks by Sector



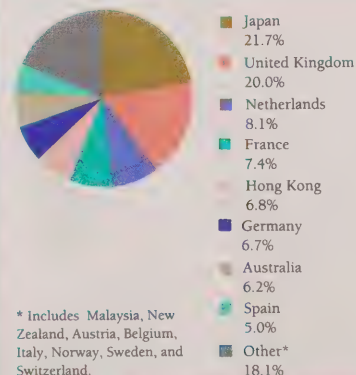
NON-NORTH AMERICAN STOCK INVESTMENTS

We made the first purchases of non-North American shares through two fund managers located in Canada, a third in Scotland and a fourth in England. By year end, more than \$600 million was invested. The portfolio was weighted to European stocks at 59 per cent of the total, with British corporations dominating. The remaining funds were invested in Pacific Rim companies, notably Japanese firms. Our goal is to exceed the performance of the *EAFE Index*, which consists of European, Australian and Far Eastern stocks.

SHARE VOTING POSITION

Our stock market investments make the pension board a voting shareholder in more than 300 Canadian, 500 American, and 150 non-North American corporations. We consider these voting privileges to be a fiduciary responsibility to be used judiciously in electing directors who are capable of thought and action independent of the corporation's management.

1991 Non-North American Stocks by Country



We are guided by the prudent person rule in exercising our fiduciary responsibilities. This means that we will use corporate voting rights to support ethical conduct, but not to advance any particular external social or political agenda.

We will use corporate voting rights to support ethical conduct, but not to advance any particular external social or political agenda.

We believe that all corporate shareholders have the right to receive proper notice of corporate actions and to vote on issues that have a material financial impact on their investments. As fiduciaries, we will exercise proxies in the best interests of the plan to maximize its long-term returns.

REAL ESTATE INVESTMENTS

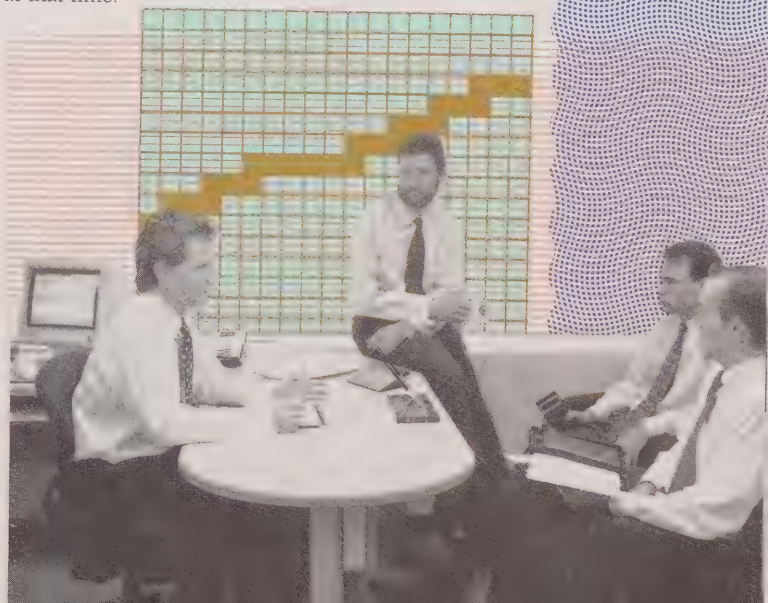
A wholly owned subsidiary, Ontrea Inc., has been incorporated to facilitate our investments in the Canadian real estate market. Last year, we considered in excess of \$2 billion of real estate offers, including diversified portfolios. Our goal was to identify well managed properties that could add stability to our equity portfolio and produce reliable and superior long-term income growth.

In September, we acquired 50-per-cent ownership in three shopping centers for \$180 million. The co-owner and property manager is Cadillac Fairview, a leading Canadian developer. These regional malls – Hillcrest Mall in Richmond Hill, Polo Park in Winnipeg, and Southland Mall in

Regina – have a combined total of 1.7 million square feet of merchandising space. These properties provide geographic diversity and are generating high rental income with an average tenant occupancy of 96 per cent. The quality and market position of the properties suggest that we can continue to expect reliable long-term growth of income and capital.

The recession has increased opportunities to purchase an ownership position in quality real estate. We are considering the acquisition of equity positions in several income properties owned and managed by large and established developers. Our goal is to create a portfolio that is diversified by both geographic market and type of property. Specifically, we are interested in regional shopping malls that have a prominent position in their surrounding trading area, downtown Class A office properties in major cities across Canada, and groups of industrial buildings in mature business parks.

By following this investment strategy, the pension plan will be a major investor in Canadian real estate. The income-property portfolio could exceed \$5 billion in value within 10 years, which will be less than 10 per cent of total assets at that time.



PRIVATE PLACEMENT INVESTMENTS

We concluded seven private placements in 1991, involving the commitment of more than \$100 million of equity capital. These were limited-risk investments, not speculative or venture capital investments.

We have decided to make both direct and indirect investments to increase the efficiency of the private placement program. A small team of staff specialists evaluates and negotiates the direct investment opportunities. External management groups, with whom we have formed close alliances, implement the indirect investments.

The private placement program enables us to diversify the risk exposure in our investment portfolio and to assist smaller companies in fulfilling their potential in terms of financial stability, product development, growth in competitive market share, and job creation.



We are helping smaller companies fulfill their potential in terms of financial stability, product development, growth, and job creation.

Three direct placements were made in enterprises that are mature operating companies with proven track records of income performance. They are: Commcorp Financial Services Inc., a leading national equipment financing and leasing company; Strong Equipment Corporation, a national distributor of construction and related equipment; and, White Rose Crafts and Nursery Sales Limited, a retailer of lawn, garden and craft supplies across Ontario.

Four indirect equity placements were made through limited partnerships and merchant

bankers who specialize in the media industry, such as cable tv, community newspapers and other media businesses.

Factors such as the effect of the recession on market values has made Canada, and especially Ontario, an attractive investment environment in terms of identifying growth businesses in need of funds. During 1992, we expect to review more than 200 proposals that will individually require infusions of capital ranging from \$10 million to \$100 million. Our target for the year is to invest as much as \$200 million, depending on acceptable risk profiles and projected rates of return.

During the next 10 years, the private placement portfolio is expected to exceed \$2 billion in value, making it one of Canada's largest active pools of equity investment in growth enterprises. At that time, this portfolio would represent less than 3 per cent of total assets.

ONTARIO DEBENTURE INVESTMENTS

Non-marketable debentures, including accrued interest, continue to dominate the asset mix at \$18.2 billion, or 76 per cent of invested assets. While we were aggressive in acquiring stocks and other assets, the sharp decline in interest rates during the year increased the value of the debentures to maintain their portfolio dominance on a market value basis.

In 1991, \$19 million of these debentures matured, compared with \$350 million in 1990. Only 7 per cent of the debentures are scheduled to mature prior to 1997, with 40 per cent not maturing until 2007 or later. The non-marketable and long-term maturity of these debentures inhibits diversification into other asset classes.

Meanwhile, we are managing these debentures in the same way as we manage other bonds to maximize returns and reduce risk. One way in which we do this is through the use of financial instruments known as derivatives, such as long-bond futures and options contracts.

Derivatives are not speculative investments; rather, in keeping with our policy of prudence, they enable us to hedge risk exposure to interest rate fluctuations and other market factors beyond our control.

A one-percentage-point rise in the level of interest rates decreases the market value of the debenture portfolio by approximately 6.5 per cent. Conversely, a one-percentage-point decline in interest rates increases the market value by approximately 6.5 per cent. Our exposure to these changes was evident by the \$926 million decline in the market value of the debentures in 1990, and a \$1.8-billion market value appreciation in 1991.

OTHER CANADIAN BOND INVESTMENTS

We more than doubled the size of the Canadian bond portfolio last year to \$601 million from \$295 million a year earlier. The bond portfolio, which represents approximately 2 per cent of total investments, is actively traded.

Provincial debentures

(millions of dollars)

Maturity date	Market Value
1992 - 1996	1,182
1997 - 2001	3,237
2002 - 2006	5,538
2007 - 2011	7,018
2012	720

MONEY MARKET INVESTMENTS

In keeping with our objective of putting all cash to work while awaiting investment in long-term assets, our money market holdings were reduced to \$569 million, compared with \$1.4 billion in 1990. Approximately two-thirds of money market instruments are Canadian treasury bills.

CHANGES IN MARKET VALUE OF ASSETS

The sharp decline in interest rates during the second half of the year increased the market value of our fixed-income securities, which principally consist of provincial debentures. While the Ontario debentures cannot be sold, their value can be determined by discounting cash flow at the yield that could be obtained from comparable Ontario bonds.

The stock market showed good growth early in the year, with U.S. stocks performing exceptionally well. This increased the market value of shares acquired during the year.

In total, the market value of the plan's assets appreciated by \$1.9 billion in 1991. The previous year, asset values declined by \$926 million when the debentures depreciated during a period of rising interest rates.





FINANCIAL PERFORMANCE

The pension plan performed well in 1991, registering on a market value basis a 19.6-per-cent rate of return, compared with 5.6-per-cent in 1990. However, we cannot expect to sustain these exceptional results over the long term because of the cyclical nature of investment markets. On a two-year basis, our performance of 12.4 per cent exceeded the rate of inflation by 8 per cent. Our stated investment goal is to exceed the rate of inflation by 4.5 per cent on a four-year moving average.

The pension plan performed well in 1991, registering on a market value basis a 19.6-per-cent rate of return, compared with 5.6 per cent in 1990.

This performance compared with a median manager rate of return of 17.3 per cent for balanced pooled pension funds and 18.1 per cent for a composite index of diversified assets, according to information compiled by TPF&C Limited, an actuarial consulting firm. The value of the comparison with these funds is limited as our plan continues to be dominated by the large provincial debenture portfolio and thus is far short of the balanced asset mix desired.

Rates of Return by Asset Class

%	1991	1990
Canadian Stocks	10.4	8.9*
U.S. Stocks	30.9	10.9*
Non-North American Stocks	5.9	—
Canadian bonds	18.8	—
Ontario debentures	20.4	5.4
Money market	11.8	13.2
Total portfolio	19.6	5.6

*from October to December only

PERFORMANCE BENCHMARKS

We measure asset class performance against external benchmarks:

- Canadian stocks – the **TSE 300 Index**. It measures the total returns (the change in share values plus dividend income) of 300 corporations representing a cross-section of listings on the Toronto Stock Exchange.
- U.S. stocks – the **S&P 500 Index**. The Standard & Poor's index measures the total returns of 500 leading corporations listed on the New York Stock Exchange.
- Non-North American stocks – the **EAFE Index** produced by Morgan Stanley Capital International. This acronym is for a portfolio of shares for major corporations in Europe, Australia and the Far East.
- Money market securities – the yield on 90-day treasury bills.
- Canadian bonds – the **SM Universe, Canada Bonds**. This index, created by the Canadian investment dealer firm of Scotia McLeod, measures the performance of all bonds in Canada. We compare our Canada bonds with the government component of the SM Universe.
- Ontario debentures – these investments are compared with the **SM Universe, All Governments**.

Once we have completed four years of investment activity, and the portfolio asset mix is consistent with our investment policy, the comparison of average rates of return by asset class with external benchmarks will be useful in tracking performance.

The board of directors has reviewed a long-term asset mix strategy and set targets for each asset

class for 1992. The board will thus be able to measure the actual year-end performance against these targets as well as external benchmarks.

REVENUE GROWTH

The plan began 1991 with net assets of \$20.1 billion. During the year, \$3.5 billion of revenue was received. Allowing for expenditures, \$2.6 billion was available for investment. This compared with gross revenue of \$3.3 billion in 1990, of which \$2.5 billion was available for investment. These funds came from two principal sources:

- Earnings generated by investments, which totalled \$1.9 billion in 1991. This was virtually the same amount earned in the previous year.
- The contributions of plan members and the province, as well as special payments from the provincial government. These totalled \$1.6 billion, compared with \$1.3 billion a year earlier. Member and provincial contributions increased by nearly 18 per cent, reflecting the increased salaries being received by members, a change of part-time teachers to full-time positions, and an increase in the number of plan members. The government's special payments toward the unfunded liability totalled \$270 million, compared with \$187 million in the prior year.

EXPENDITURES

Payments to pensioners increased to \$806 million, compared with \$742 million in 1990. The increase in benefits included a 4.8-per-cent cost-of-living adjustment for 1991. During the year, 1,930 teachers retired, bringing to 39,700 the number of pensioners receiving benefits.

Refunds of contributions and the transfer of benefits to other pension plans totalled \$22.8 million, compared with \$18 million a year earlier.

The only other expenditure category related to the administration of the plan. These expenses rose by \$5.1 million to \$25.4 million. As discussed in the President's report on page 12, the main increase in these expenditures related to establishment of the Investment Division and a much higher volume of investment transactions.

INCREASE IN NET ASSETS

After deducting expenditures (benefit payments and other costs) from revenues (investment income, contributions and other revenues), the plan concluded the year with an increase in net assets of \$4.6 billion, compared with \$1.6 billion in 1990.

The 1991 results contained \$1.9 billion in unrealized earnings (that is, the appreciation in the market value of assets) and a further \$1.9 billion in realized earnings (mostly interest payments on fixed-income securities and dividends from stocks).

When the total of realized and unrealized income is added to the net assets at the start of the year, the plan completed 1991 with net assets available to meet future benefits of \$24.7 billion. This represents a \$4.6-billion, or 22.7-per-cent, growth in the plan's net assets.

ASSET/LIABILITY MANAGEMENT

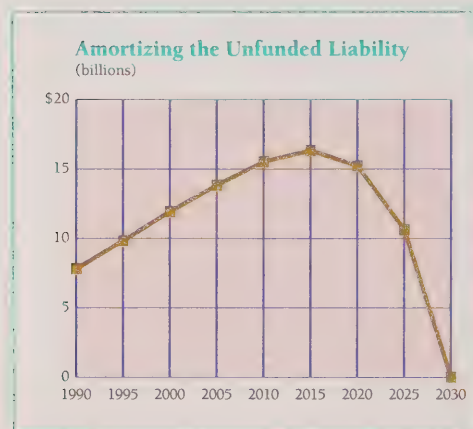
The investment strategy is designed to meet the plan's liabilities. The long-term nature of liabilities is largely matched by investments in assets that are also long term.

Contributions are well in excess of annual pension payments and other liabilities, and are expected to remain so for many years.

A major concern in this matching process is unanticipated inflation. Pension benefits are indexed for inflation, to a maximum of 8 per cent in one year. However, inflation promotes higher interest rates, which reduces the market value of such fixed-income securities as bonds and debentures. This reduces the asset values available to meet future pension commitments.

To offset this risk of liabilities rising and asset values declining, we attempt to invest part of our new funds in assets that respond positively to unanticipated inflation.

Annual contributions from members and government, combined with projected investment income, are well in excess of annual pension payments and other liabilities, and are expected to remain so for many years.



LIQUIDITY

Our liquidity requirements are mainly for meeting the payment of pension benefits, the costs of the investment program, and administrative expenses. Pension plans are prohibited from borrowing for investment purposes, although they can incur loans for up to 90 days for operating purposes.

PRE-1990 FUNDING VALUATION

At the beginning of 1990, it was known that the value of assets in the plan plus the value of future contributions at current rates were insufficient to meet the future pension benefits of existing plan members.

The Teachers' Pension Act required the pension board to retain an independent actuary to determine the statutory liability on January 1, 1990, the normal contributions required from active teachers, the matching contributions from the government, and the government contribution to pay off past deficiencies over a 40-year period.

William M. Mercer Limited, an actuarial consulting firm, was retained to prepare the valuation and determine an appropriate contribution rate. On January 1, 1990, the statutory unfunded liability totalled \$7.8 billion, or 19 per cent of total liabilities. The province is committed to paying this amount by 2030. For 1990 and 1991, the payments totalled \$457 million, which is approximately \$149 million less than the amount identified by the valuation report. In compliance with legislation, this difference must be paid within 15 months of the date the Pension Commission of Ontario approves the actuarial report. Payments based on the new valuation report began in October 1991.

Future payments, including the scheduled 1992 payment, will be at the rate of 4.3 per cent of members' payroll. Initially, these payments will be insufficient to cover interest charges. As the table on page 22 shows, the unpaid balance will rise to an estimated peak of \$16.3 billion by 2015, before declining and being eliminated in 2030. The rise in the dollar value of the unpaid balance should be placed in the context of much greater expected growth in liabilities and members' payroll over the next 23 years. The unpaid balance, even in the peak year of 2015, will be a lower percentage of both total liabilities and members' payroll than is the case today.

The actuary confirmed the contribution rate teachers and the province must pay at 8.9 per cent, a rate that should ensure the plan can properly support future benefits and cover related administrative expenses.

BEST ESTIMATE ACTUARIAL VALUATION

As a sound management practice, we estimate the plan's anticipated funding situation based on the cost of future benefits already earned by members. This "best estimate" valuation is calculated by William M. Mercer Limited based on management's assumptions.

At the 1991 year end, the plan's funding deficiency was estimated at \$3.7 billion, or 13.3 per cent of total liabilities. This compared with \$3.6 billion, or 14.6 per cent of total liabilities, a year earlier. As the accompanying table indicates, during 1991 we adjusted two key assumptions on future rates of return and wage increases to reflect changes in economic and demographic trends.

The removal of the 35-year maximum on eligible teaching service resulted in a \$305-million gain. However teacher wage increases in 1991

were higher than projected by the actuary, resulting in an unexpected loss of \$279 million. The changes in actuarial assumptions increased the deficiency by \$164 million.

STATUTORY ACTUARIAL VALUATION

The *Teachers' Pension Act* and the *Pension Benefits Act* require a funding valuation at least every three years. This statutory valuation looks at current assets and current liabilities, and at the future contributions and unaccrued benefits of existing members. It tries to anticipate the value of these assets and liabilities over the lives of current members.

The statutory valuation uses, as it should, a conservative approach, as required by legislation and by the Pension Commission of Ontario. This means it is cautious in making assumptions about economic and demographic trends as far as 70 years away. It builds a safety margin to ensure that the pension benefits promised to members can be delivered.

The statutory valuation will be used to determine the sharing of future surpluses or deficits between the plan's co-sponsors, the Ontario government and the Ontario Teachers' Federation.

Comparing the Assumptions		
	Actuary's "cautious" valuation Jan. 1, 1990	Pension board's "best estimate" valuation Dec. 31, 1991
Rate of return	8.50%	10.25%*
Wage inflation	5.75%	5.75%
	+ seniority	+ seniority
Customer price index	4.50%	4.50%
Real rate of return	4.00%	5.75%**
Unfunded liability	7.8 billion	3.7 billion
*From 1992 - 2000; 9.25% thereafter		
**From 1992 - 2000; 4.75% thereafter		

RECONCILING THE DIFFERENT VALUATIONS

There are fundamental differences in approach between the best estimate and statutory valuations. The best estimate valuation, for example, does not take into consideration unaccrued benefits and future contributions; the statutory valuation does.

Neither approach can accurately foretell the distant future, although their attitudes about that future are different. The statutory valuation is deliberately biased toward a cautious outcome in terms of funding. The best estimate valuation attempts to disclose a more reasonable funding situation.

The difference between the two approaches is evident in the estimates of the future rate of return that the plan might earn on its investments. The best estimate valuation, which attempts to be realistic, projects a 10.25-per-cent rate of return. The statutory valuation, which is inherently conservative, reduces this to an 8.5-per-cent investment return.

The funding deficiencies estimated by these valuations are only projections. They will change as the underlying assumptions change in response to what will really happen. Nevertheless, the valuations provide two perspectives of the plan's possible long-term financial condition so that appropriate adjustments can be made to ensure that investment income and contributions provide the retirement income expected.

OUTLOOK

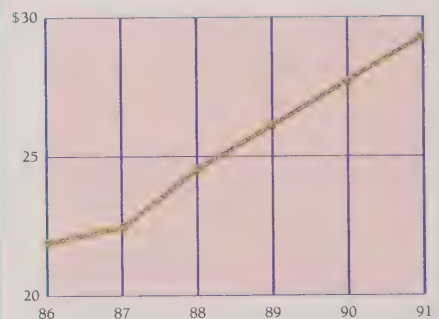
In 1992, we expect to have \$2.7 billion of net revenue available for investment.

Our investment priority in 1992 is to continue portfolio diversification through an emphasis on equity, including stocks, income-producing real estate and private placements. In the longer term our assets mix goal is at least two-thirds equities and one-third fixed-income securities.

Our long-range challenge is to invest available funds effectively so that the portfolio can provide pensions to plan members at a reasonable cost to them and the plan sponsors.

Our long-term challenge is to provide financially acceptable pensions to plan members at a reasonable cost.

Average Unreduced Pension
(thousands)



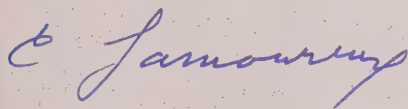
The financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a written code of conduct, the establishment of an organizational structure that provides a well defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by extensive internal audit programs which are subject to scrutiny by the external auditors.

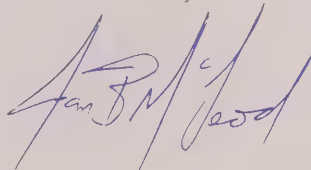
Ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the

Audit and Actuarial Committee, consisting of four directors who are not officers or employees of the Plan administrators. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the Board.

The Plan's external auditors, Peat Marwick Thorne, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.



Claude R. Lamoureux
President and
Chief Executive Officer



Ian B. McLeod
Vice President, Finance

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS

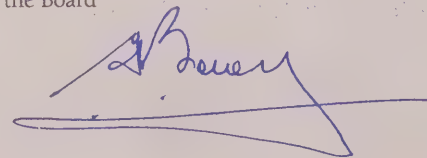
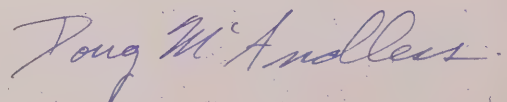
as at December 31, 1991

(\$000's)	1991	1990
NET ASSETS		
Assets		
Investments (note 4(a))	23,969,732	19,456,242
Receivable from Province of Ontario		
Employer contributions	1,059,409	848,701
Interest on employer contributions	130,420	96,182
	1,189,829	944,883
Cash	7,950	—
Fixed assets (note 2)	1,477	—
	25,168,988	20,401,125
Liabilities		
Bank indebtedness	—	2,534
Accounts payable and accrued liabilities	2,036	13,397
Payable to brokers	470,087	260,862
	472,123	276,793
Net assets available for benefits	24,696,865	20,124,332
Market value adjustment (note 4(b))	(883,000)	709,000
Actuarial value of net assets available for benefits	23,813,865	20,833,332
ACCRUED PENSION BENEFITS		
Actuarial value of accrued pension benefits (note 5)	27,479,000	24,391,000
Deficiency	3,665,135	3,557,668

On behalf of the Board

Chairperson

Board Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 1991

(\$000's)	1991	1990
Revenue		
Investment income (note 6)	1,896,440	1,957,716
Unrealized change in market value of investments (note 6)	1,947,145	(926,357)
	3,843,585	1,031,359
Contributions (note 8)	1,529,804	1,300,448
Repayments of refunds	29,181	13,342
Transfers from other plans	24,590	19,262
	5,427,160	2,364,411
Expenditures		
Benefits paid (note 9)	806,427	741,938
Refunds of contributions	11,272	11,180
Transfers to other plans	11,527	6,816
Administrative expenses (note 10)	25,401	20,303
	854,627	780,237
Increase in net assets	4,572,533	1,584,174
Net assets available for benefits at beginning of year	20,124,332	18,540,158
Net assets available for benefits at end of year	24,696,865	20,124,332

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1991

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements present the aggregate financial position of the Ontario Teachers' Pension Plan (the Plan) as a separate financial reporting entity, independent of the co-sponsors and Plan members.

(b) Investments

Investments are stated at market value and are recorded as of the trade date. Province of Ontario debentures, which are not marketable, are recorded at estimated market values calculated by discounting cash flows based on year-end market yields of comparable securities. Money market securities are carried at amortized cost, which approximates market value. Bonds and stocks are valued at year-end market prices. Real estate investments are valued on the basis of independent appraisals.

The Plan uses interest rate futures and options to hedge interest rate exposure on its non-marketable debenture portfolio. Interest rate futures and options are recorded at market value and the resulting gains or losses are recognized in income.

Gains and losses on the sale of investments are determined using average cost and are credited or charged to investment income.

Dividends are accrued as of the ex-dividend date.

(c) Contributions from the Province of Ontario

Special and interim payments from the Province of Ontario (the Province) on the unfunded liability are recorded in the year in which they are received.

(d) Foreign Currency Translation

Foreign currency transactions are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies included in the statement of net assets are translated at the rates in effect at year end. The resulting unrealized gain or loss is included in the statement of changes in net assets available for benefits.

(e) Benefits

Payments for benefits, refunds and transfers are recorded in the year in which they are made.

1. DESCRIPTION OF PLAN

The following description of the Plan is a summary only. For more complete information, reference should be made to the Teachers' Pension Act (the Act).

(a) General

The Plan is a contributory defined benefit pension plan co-sponsored by the Province and Plan members and is mandatory for most persons who are eligible to be Plan members. Contributions are made by active members of the Plan, designated private schools and organizations, and the Province. The Plan is registered with the Pension Commission of Ontario as number C008450.

(b) Funding

Plan benefits are funded by contributions and investment earnings derived from contributions. The determination of the value of the benefits is made on the basis of actuarial valuations (see note 5). Subsection 5(3) of the Act provides that the Province is to pay any annual cash flow deficiencies after the disposal of all saleable Plan assets.

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced pension is available at age 65 or at any age if the sum of a member's age and service equals 90.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of a survivor pension, a lump sum payment, or both.

(f) Additional credited service

Members can acquire additional credited service in the Plan for leaves of absence, breaks in service or transfers from other plans.

(g) Withdrawals from the Plan

Subject to the lock-in provisions, withdrawal refunds and transfers, with interest, are available when a member ceases to be employed in education.

(h) Income taxes

The Plan is a Registered Pension Plan as defined in the Income Tax Act and, consequently, is not subject to income taxes. The Plan's registration number is 0345785.

(i) Escalation of benefits

Pension benefits are adjusted for inflation at 100 per cent of the Consumer Price Index, subject to a limit of 8 per cent in any one year with any excess carried forward.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1991, the Plan changed its method of accounting for fixed assets on a prospective basis. Previously fixed assets were charged to operations as they were acquired.

Fixed assets are now capitalized and depreciated over their estimated useful life. This change results in a more appropriate matching of depreciation expense with on-going revenues. The effect of this change on the 1991 and prior years' results was not material and, accordingly, prior years' results have not been restated.

3. TEACHERS' PENSION ACT, 1989 AND TEACHERS' PENSION STATUTE LAW AMENDMENT ACT, 1991

Effective December 31, 1989 the Ontario legislature changed the statute governing the Plan. The Teachers' Pension Act, 1989 repealed the former legislation but continued the plan set out in the former act, including the related benefits provided under the Superannuation Adjustment Benefits Act.

The Teachers' Pension Act, 1989 also named the Ontario Teachers' Pension Plan Board (the Board) as the administrator of the Plan and manager of the pension fund. The Teachers' Superannuation Fund was continued under a new name, the Ontario Teachers' Pension Fund, as the pension fund maintained to provide plan benefits.

In December 1991, the Ontario legislature passed the Teachers' Pension Statute Law Amendment Act, 1991 (the Amendment Act). The purpose of the Amendment Act is to allow for the implementation of an equal partnership between the Province and the Plan members for the sponsorship, management and financial responsibility of the Plan. The Amendment Act came into force on January 1, 1992.

Under the Amendment Act, the Province and the Plan members will eventually share in future experience gains or losses equally. This sharing will be phased in over a five-year period based upon actuarial valuations as follows:

	Portion to be shared equally between Plan members and the Province
Jan. 1, 1990-Dec. 31, 1991	0%
Jan. 1, 1992-Dec. 31, 1993	40%
Jan. 1, 1994-Dec. 31, 1996	60%
After January 1, 1997	100%

Until December 31, 1996, the Province will use the unshared portion of any gains to reduce its contributions towards the January 1, 1990 unfunded liability. The Province will remit to the fund the unshared portion of any losses by making special contributions over a period not to exceed 15 years.

The province and the members are required to reach a common agreement regarding the disposition of the shared portion of any gain or loss. Gains can be applied to decrease the contribution rate or to improve benefits. Losses are expected to be eliminated by an increase in contribution rates.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1991

4. INVESTMENTS

(a) Investments consist of the following:

(\$000's)	1991		1990	
	Market Value	Cost	Market Value	Cost
Province of Ontario debentures	18,189,737	15,944,065	16,449,120	15,964,917
Short term securities				
Treasury bills and short term notes	568,729	568,729	1,313,161	1,313,161
Term deposits	210	210	72,000	72,000
	568,939	568,939	1,385,161	1,385,161
Equities				
Canadian	2,618,499	2,537,631	519,862	505,776
Foreign	1,795,719	1,504,165	806,680	775,029
	4,414,218	4,041,796	1,326,542	1,280,805
Canadian bonds	601,527	583,833	295,419	296,530
Real estate	179,629	179,629	-	-
Mortgages	15,682	15,682	-	-
	23,969,732	21,333,944	19,456,242	18,927,413

Included above is accrued interest and dividends of \$519,854 (1990 - \$502,462).

(b) The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits). This value is obtained by adjusting market values to recognize any difference between the actual and expected returns on the Fund uniformly over five years. The impact of this adjustment was to reduce the net assets available for benefits by \$883 million compared with an increase of \$709 million in 1990.

5. OBLIGATIONS FOR PENSION BENEFITS

The present value of accrued pension benefits was determined in accordance with generally accepted accounting principles for pension plans using the projected benefit method prorated on service and the Board's best estimate assumptions. The actuarial method and assumptions differ from those used in the determination of the pension obligations for funding purposes as described in note 7. An actuarial valuation was made as of January 1, 1991, by William M. Mercer Limited, a firm of consulting actuaries, and was then extrapolated to December 31, 1991.

The actuarial present value of benefits as at December 31 and the principal components of changes in actuarial present values during the year were estimated to be:

(\$000's)	1991	1990
Actuarial present value of accrued pension benefits at beginning of year	24,391,000	21,912,000
Interest accrued on benefits	2,588,000	2,309,000
Benefits accrued	1,180,000	923,000
Benefits paid	(818,000)	(753,000)
Amendments to the Plan	(305,000)	-
Change in actuarial assumptions	164,000	-
Experience losses	279,000	-
Actuarial present value of accrued pension benefits at end of year	27,479,000	24,391,000

The decrease in actuarial present value of accrued pension benefits due to Plan amendments relates to the removal of the 35-year maximum for eligible service.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	1991	1990
Asset rate of return		
until 2000	10.25%	10.50%
thereafter	9.25%	9.25%
Salary escalation rate	5.75%	6.00%
Inflation rate	4.50%	4.50%

6. INVESTMENT INCOME

(\$000's)	1991	1990
Interest income		
Cash and short-term securities	96,336	188,036
Province of Ontario debentures	1,595,694	1,762,762
Canadian bonds	69,371	1,022
Mortgages	457	-
	1,761,858	1,951,820
Dividend income		
Canadian equities	57,289	2,531
Foreign equities	39,657	3,193
	96,946	5,724
Real estate	3,565	-
	1,862,369	1,957,544
Realized gain on investments	34,071	172
	1,896,440	1,957,716
Unrealized change in market value of investments	1,947,145	(926,357)
	3,843,585	1,031,359

7. FUNDING POLICY

In accordance with the Teachers' Pension Act, 1989 active members are required to contribute 8.9 per cent of their salary to the Plan.

In accordance with the Teachers' Pension Act, 1989 the Province was required to provide the balance of the funding necessary to ensure that benefits will be fully provided for at retirement, based on a going concern valuation of the Plan as at January 1, 1990. This initial actuarial valuation was prepared by William M. Mercer Limited in accordance with the requirements of the Teachers' Pension Act, 1989 and the Pension Benefits Act, 1987 and has, by the nature of the assumptions used, produced an unfunded actuarial liability that is higher than the deficiency determined for accounting purposes.

The unfunded actuarial liability of \$7.8 billion disclosed by this initial valuation will be liquidated by the Province over the 40 years commencing January 1, 1990 by special payments. These monthly payments are estimated as a constant percentage of the projected future earnings upon which benefits are calculated over the next 40 years for all active members of the Plan during that time.

Beginning January 1, 1990, and until the initial valuation was filed with the Pension Commission of Ontario (the Commission), the Province was required to make interim monthly payments as set out in the Teachers' Pension Act, 1989. The difference between the payments made prior to the filing of the initial valuation on October 1, 1991 and the payments required during that period will be made by the Province, with interest, within 15 months of the Commission's approval of the initial valuation. The difference between the payments made and the payments required by the initial valuation amounted to \$149 million.

The Province may prepay the special payments, with the appropriate adjustment for interest.

The Teachers' Pension Act, 1989 also required the initial valuation to determine the contribution rate which ensures that future contributions cover future benefits and expenses. Based upon the initial valuation the contribution rate remained at 8.9 per cent.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1991

8. CONTRIBUTIONS

(\$000's)	1991	1990
Members		
Current service	560,612	506,704
Optional credit	36,298	18,639
Province of Ontario		
Current service (including interest of \$97,320; 1990-\$74,782)	654,329	579,483
Unfunded liability	269,707	187,275
Other employers		
Current service	8,858	8,347
	1,529,804	1,300,448

9. BENEFITS PAID

(\$000's)	1991	1990
Retirement pensions	733,225	673,536
Disability pensions	21,404	20,113
Death benefits		
Survivor pensions	47,344	44,420
Lump sum payments	4,454	3,869
	806,427	741,938

10. ADMINISTRATIVE EXPENSES

(\$000's)	1991	1990
Salaries and benefits	13,720	11,506
Premises and equipment	4,293	3,794
Professional consulting services	2,505	1,976
Communication and travel	1,873	1,785
Investment management fees	1,323	55
Custodial and banking fees	747	312
Stationery and supplies	537	564
Board and committee renumeration	146	148
Audit fees	136	82
Publications and regulatory fees	63	41
Other	58	40
	25,401	20,303

11. CONTINGENCIES

- (a) A claim has been made against the Plan because of corrective steps taken by the Board in September 1986 in order to conform to a legal interpretation of a previous act. These steps have resulted in the reduction of approximately 1,500 pensions on a prospective basis. The Supreme Court of Ontario has agreed with the Board's interpretation with respect to this claim, but the claimant has appealed.
- (b) In 1991 certain members asked the court to order the Board to accept their applications to purchase credit for their breaks in service following occasional teaching. The court agreed with the members' interpretation of the plan and issued the requested order. Many other members who were occasional teachers may apply to purchase credit on the same basis. The Board estimates that, if all these possible purchases were made, the Plan will be liable to a further potential actuarial cost of \$576 million. The Board has appealed to the Ontario Court of Appeal.

The outcomes of these two appeals cannot be reasonably determined at this time. Accordingly, no provision for them has been made in these financial statements. Any settlements will be recorded in the year they are made.

12. COMMITMENTS

- (a) As at December 31, 1991, the Plan is committed to fund various investments of approximately \$98 million.
- (b) The Plan is committed under a lease for office premises to annual lease payments of \$1.3 million for 1992 and \$1.8 million for each of the years 1993 to 1997.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1991.

KPMG Peat Marwick Thorne**TO THE ADMINISTRATOR**

We have audited the statement of net assets available for benefits and accrued pension benefits of the Ontario Teachers' Pension Plan as at December 31, 1991 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits of the Plan as at December 31, 1991 and the changes in its net assets available for benefits for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Toronto, Canada

February 7, 1992

A
Auditors'
Report

**WILLIAM M.
MERCER**
LIMITED

We have performed an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at December 31, 1991, for inclusion in the Plan's financial statements.

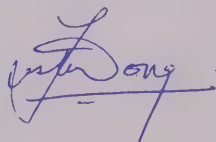
The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at December 31, 1990;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events; and
- information provided by the Education Relations Commission on negotiated wage settlements in 1990 and 1991.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1991 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act, 1989*, and the *Pension Benefits Act, 1987*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods used are consistent with sound actuarial principles, and that the assumptions are appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with generally accepted actuarial principles.



Lester J. Wong, F.C.I.A.

February 7, 1992



Malcolm P. Hamilton, F.C.I.A.

FINANCIAL HIGHLIGHTS – FIVE-YEAR REVIEW

for the year ended December 31

(millions of dollars)

	1991	1990	1989	1988	1987
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CHANGES IN NET ASSETS

Revenue

Investment income					
Realized	1,896	1,957	1,532	1,344	1,166
Unrealized	1,947	(926)	—	—	—
	3,843	1,031	1,532	1,344	1,166
Contributions					
Members	597	526	371	334	306
Province of Ontario – current service	654	579	404	366	333
– unfunded liability	270	187	—	—	—
Other employers	9	8	6	5	5
	1,530	1,300	781	705	644
Refunds and transfers	54	33	18	19	13
Total revenue	5,427	2,364	2,331	2,068	1,823

Expenditures

Benefits paid	806	742	435	361	300
Refunds and transfers	23	18	13	8	13
Administrative expenses	25	20	16	16	10
Total expenditures	854	780	464	385	323

Increase in net assets	4,573	1,584	1,867	1,683	1,500
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NET ASSETS

Investments ⁽¹⁾					
Short-term securities	569	1,385	281	72	66
Province of Ontario debentures	18,190	16,449	16,274	12,881	11,260
Canadian bonds	601	295	—	—	—
Equities	4,414	1,327	—	—	—
Real estate	180	—	—	—	—
Mortgages	16	—	—	—	—
	23,970	19,456	16,555 ⁽²⁾	12,953 ⁽²⁾	11,326 ⁽²⁾
Receivable from Province of Ontario	1,190	945	738	671	616
Other assets	9	—	33	26	24
Liabilities	(472)	(277)	(238)	(11)	(10)
Net assets available	24,697	20,124	17,088	13,639	11,956
Market value adjustment	(883)	709	N/A	N/A	N/A
Actuarial value of net assets	23,814	20,833	N/A	N/A	N/A
Actuarial value of pension benefits ⁽³⁾	27,479	24,391	N/A	N/A	N/A
Deficiency	3,665	3,558	N/A	N/A	N/A

⁽¹⁾ Investments are valued at market since 1990; at cost in prior years.

⁽²⁾ The Superannuation Adjustment Fund account transactions are not reflected in investments for the years 1987 to 1989.

⁽³⁾ Liability for pension benefits was determined for accounting purposes beginning in 1990. Accordingly, comparative for prior years are not available.

SCHEDULE OF PROVINCE OF ONTARIO DEBENTURES

as at December 31, 1991
(millions of dollars)

Maturity Date	Coupon %	Market Value	Cost
1992-1996	6.00 - 6.99	450	455
	8.00 - 8.99	299	296
	9.00 - 9.99	155	152
	10.00 - 10.99	209	197
	11.00 - 11.99	69	64
		1,182	1,164
1997-2001	7.00 - 7.99	117	120
	8.00 - 8.99	353	357
	9.00 - 9.99	1,084	1,026
	10.00 - 10.99	216	199
	11.00 - 11.99	810	717
	12.00 - 12.99	143	121
	13.00 - 13.99	167	137
	14.00 - 14.99	133	107
	16.00 - 16.99	214	165
		3,237	2,949
2002-2006	9.00 - 9.99	679	646
	10.00 - 10.99	863	803
	11.00 - 11.99	565	490
	12.00 - 12.99	1,999	1,626
	13.00 - 13.99	986	775
	14.00 - 14.99	446	335
		5,538	4,675
2007-2011	10.00 - 10.99	2,843	2,606
	11.00 - 11.99	2,835	2,485
	15.00 - 15.99	1,340	945
		7,018	6,036
2012	11.00 - 11.99	720	625
		17,695	15,449
Accrued interest		495	495
		18,190	15,944

INVESTMENTS IN CORPORATE SHARES AND CONVERTIBLE DEBENTURES

Greater than \$10 million

as of December 31, 1991

Enterprises	Number of Shares or Par Value	Market Value (\$000's)
Corporate Shares		
Alcan Aluminum Limited	2,881,000	66,964
American Barrick Resources Corp.	1,305,600	41,779
American Home Products Corp.	276,800	27,069
American Telephone & Telegraph Co.	473,759	21,420
Amoco Corp.	210,100	11,927
Bank of Montreal	1,328,300	58,113
Bank of Nova Scotia, The	2,322,300	50,220
British Columbia Telephone Company	591,090	13,595
BCE Inc.	3,453,045	164,451
Bellsouth Corporation	179,400	10,729
Bombardier Inc.	653,500	18,619
Cambridge Shopping Centres Ltd.	2,297,900	48,216
Canadian Pacific Ltd.	3,570,100	64,262
Canadian Tire Corporation, Limited	975,200	21,820
Cara Operations Limited	2,012,900	11,275
Canadian Imperial Bank of Commerce	2,596,364	89,250
Canadian Occidental Petroleum Ltd.	385,900	10,468
Coca-Cola Company	242,000	22,442
Cominco Ltd.	513,307	10,972
Co-Steel Inc.	577,600	10,397
Dofasco Inc.	1,403,371	22,882
Echo Bay Mines Ltd.	1,164,900	10,049
Exxon Corporation	551,000	38,761
General Electric Company	919,900	30,863
GTE Corporation	319,500	12,784
Hitachi Ltd.	1,230,000	10,383
Imasco Limited	815,300	29,758
Imperial Oil Limited	870,050	34,802
Inco Limited	1,380,600	48,666
International Business Machines Corporation	209,500	21,547
John Labatt Limited	522,300	13,319
LAC Minerals Ltd.	1,905,050	17,384
Laidlaw Inc.	2,644,700	26,842
Maclean Hunter Limited	1,693,200	19,472
Macmillan Bloedel Inc.	631,900	11,690
Merck & Company Inc.	304,900	58,665
Metall Mining Corporation	1,418,300	14,697
Mobil Corporation	190,500	14,942
Molson Companies Limited, The	528,950	15,994
Moore Corporation Limited	1,361,800	33,705
Morgan Hydrocarbons Inc.	15,286,900	17,406
National Bank of Canada	1,905,000	22,384

INVESTMENTS IN CORPORATE SHARES AND CONVERTIBLE DEBENTURES (Cont'd.)

Greater than \$10 million

as of December 31, 1991

Enterprises	Number of Shares or Par Value	Market Value (\$000's)
Noranda Inc.	1,190,000	22,164
Norcen Energy Resources Limited	806,300	18,706
Northern Telecom Limited	1,379,900	71,755
Nova Corporation of Alberta	3,701,700	26,837
Pepsico, Inc.	310,700	12,163
Philip Morris Companies Inc.	339,700	31,503
Placer Dome Inc.	2,769,881	34,979
Potash Corporation of Saskatchewan Inc.	1,761,700	28,929
Power Corporation of Canada	1,177,700	17,666
Power Financial Corporation	895,300	17,906
Procter & Gamble Company	238,200	25,840
Quebecor inc.	671,700	14,450
Ranger Oil Limited	2,085,600	18,249
Repap Enterprises Inc.	17,555,700	19,115
Rio Algom Limited	1,120,300	18,345
Royal Bank of Canada, The	3,665,600	101,262
Royal Dutch Petroleum Company	290,400	28,944
Seagrams Company Ltd., The	696,100	91,546
Shell Canada Limited	270,600	10,418
Societe Nationale Elf Aquitaine	191,650	16,574
Syntex Corporation	209,200	11,665
Teck Corporation	873,450	15,791
Telus Corporation	1,329,700	20,852
Thomson Corporation, The	2,397,600	38,362
Toronto-Dominion Bank, The	4,428,600	80,822
TransAlta Utilities Corporation	1,560,100	21,061
TransCanada Pipelines Limited	1,469,700	25,720
Trizec Corporation Ltd.	1,306,200	13,373
Unilever N.V.	107,900	13,248
Wal-Mart Stores, Inc.	425,500	28,949
Westcoast Energy Inc.	1,027,100	21,184

Convertible Debentures

Power Financial Corp.		
8% Due Apr. 30, 2014	171,000,000	215,546
Unigesco Inc.		
6.6% Due Jan. 15, 2002	25,000,000	25,000
Malette Inc.		
8.75% Due Nov. 29, 1999	10,000,000	10,000

Gerald K. Bouey, Chairperson
John H.C. Clarry
Gail Cook-Bennett
Duncan Green
Martin R. Hicks
Doug McAndless
C. Edward Medland
Lynne Sullivan
Margaret Wilson

Investment Committee

Gerald K. Bouey
John H.C. Clarry
Duncan Green
Martin R. Hicks
Doug McAndless
C. Edward Medland, Chairperson
Gary Porter
Lynne Sullivan
Margaret Wilson

Audit and Actuarial Committee

John H.C. Clarry
Gail Cook-Bennett
Doug McAndless, Chairperson
Lynne Sullivan

Benefits Adjudication Committee (Appeals)

Jim Causley
Sherry Fairweather
Duncan Green, Chairperson
David Kennedy
Kim McCulloch
Ethel McLellan
David Paton
Beverly Polowy
Ron Poste
Raymond Prévost
Roger Régimbal
George Saranchuk

President and Chief Executive Officer: Claude Lamoureux

Investments:

Senior Vice-President: Robert Bertram
Vice-President, Fixed Income: Patricia Murphy
Vice-President, Equities: Heather Hunter
Vice-President, Research and Development: George Engman
Vice-President, Real Estate: Brian Muzyk

Client Services:

Vice-President: William Foster

Corporate Affairs and Communications:

Vice-President: John Brennan
Manager, Communications: Lee Fullerton

Finance:

Vice-President: Ian McLeod

Management Information Services:

Vice-President: Al Reesor

Legal:

General Counsel: Roger Barton

Internal Audit:

Director: Thomas Cheng

The information described in this annual report does not fully describe the benefits of the pension plan. If there are any discrepancies, the *Teachers' Pension Act* will apply.

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please send to:

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street
Suite 300
North York, Ontario
M2M 4H5
Toll-free: 1-800-668-0105
Local: 226-2700

CORPORATE MISSION

T*eachers can rely on the Ontario Teachers' Pension Plan Board to provide the financial base and pension benefits knowledge around which to plan their retired lives.*



Teachers'
Pension Plan
Board

Conseil du régime
de retraite des enseignantes
et des enseignants

MISSION DU RÉGIME

Les enseignantes et les enseignants peuvent compter sur le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario pour leur procurer un élément de sécurité financière et une expertise en matière de rente qui les aideront à planifier leur retraite.

Teachers' Pension Board
Conseil du régime de retraite des enseignantes et des enseignants



Président et chef de la direction : Claude Lamoureux

Placements :

Vice-président principal : Robert Berram

Vice-président, Valeurs à revenu fixe : Patricia Murphy

Vice-président, Actions : Heather Hunter

Vice-président, Recherche et expansion : George Engman

Vice-président, Biens immobiliers : Brian Muzyk

Services à la clientèle :

Vice-président : William Foster

Gestion intégrée et communications :

Vice-président : John Brennan

Directrice, communications : Lee Fullerton

Finances :

Vice-président : Ian McLeod

Information de gestion :

Vice-président : Al Reesor

Conteneux :

Chef du contenu : Roger Barton

Vérification interne :

Directeur : Thomas Cheng

Gerald K. Bouey, président

John H.C. Clarry

Gail Cook-Bennett

Duncan Green

Martin R. Hicks

Doug McAndless

C. Edward Medland

Lynne Sullivan

Margaret Wilson

Comité des placements

Gerald K. Bouey

John H.C. Clarry

Duncan Green

Martin R. Hicks

Doug McAndless

C. Edward Medland, président

Gary Porter

Lynne Sullivan

Margaret Wilson

Comité de vérification et d'actuarial

John H.C. Clarry

Doug McAndless, président

Lynne Sullivan

Comité d'appel

Jim Causley

Sherry Fairweather

Duncan Green, président

David Kennedy

Kim McCulloch

Ethel McLellan

Beverly Polowy

Ron Poste

Raymond Prevost

Roger Régimbal

George Saranchuk

Les données du présent rapport ne présentent pas tous les détails des prestations du régime de retraite. En cas de disparité, la Loi sur le régime de retraite des enseignants a priorité.

Nous accueillons avec plaisir vos commentaires et vos suggestions au sujet du présent rapport, ou de tout autre aspect de notre programme de communications. Prière de les adresser au :

Service des communications

Conseil du régime de retraite des enseignants et des

enseignants de l'Ontario

5650, rue Yonge

Bureau 300

North York (Ontario)

M2M 4H5

Sans frais d'interruption : 1-800-668-0105

Communications locales : 226-2700

**PLACEMENTS DANS DES ACTIONS DE SOCIÉTÉ
ET DANS DES DÉBENTURES CONVERTIBLES (suite)**
En excédent de 10 millions de dollars
au 31 décembre 1991

Entreprises	Nombre d'actions ou valeur nominale	Valeur du marché (en milliers de dollars)
Molson Companies Limited, The	528 950	15 994
Moore Corporation Limited	1 361 800	33 705
Morgan Hydrocarbons Inc.	15 286 900	17 406
Noranda Inc.	1 190 000	22 164
Norcen Energy Resources Limited	806 300	18 706
Northern Telecom Ltée	1 379 900	71 755
Nova Corporation of Alberta	3 701 700	26 837
Pepsico, Inc.	310 700	12 163
Philip Morris Companies Inc.	339 700	31 503
Placer Dome Inc.	2 769 881	34 979
Potash Corporation of Saskatchewan Inc.	1 761 700	28 929
Power Corporation of Canada	1 177 700	17 906
Power Financial Corporation	895 300	25 840
Procter & Gamble Company	238 200	14 450
Quebecor inc.	671 700	18 249
Ranger Oil Limited	2 085 600	19 115
Repap Enterprises Inc.	17 555 700	18 345
Rio Algom Ltée	1 120 300	28 944
Royal Dutch Petroleum Company	290 400	10 418
Shell Canada Limited	270 600	16 574
Société Nationale Elf Aquitaine	191 650	11 665
Synnex Corporation	209 200	15 791
Teck Corporation	873 450	20 852
Telus Corporation	1 329 700	38 362
Thomson Corporation, The	2 397 600	21 061
TransAlta Utilities Corporation	1 560 100	25 720
TransCanada Pipelines Ltd.	1 469 700	13 373
Trizec Corporation Ltd.	1 306 200	13 248
Unilever N.V.	107 900	28 949
Wal-Mart Stores, Inc.	425 500	21 184
Westcoast Energy Inc.	1 027 100	
Débentures convertibles		
Power Financial Corp.	171 000 000	215 546
8 %, échéant le 30 av. 2014		
Unigesco Inc.		
6,6 %, échéant le 15 jan. 2002	25 000 000	25 000
Matette Inc.		
8,75 %, échéant le 29 nov. 1999	10 000 000	10 000

PLACEMENTS DANS DES ACTIONS DE SOCIÉTÉ ET DANS DES DÉBENTURES CONVERTIBLES

En excédent de 10 millions de dollars
au 31 décembre 1991

Régime de retraite
des enseignants
et des conseillers
de l'Ontario

Entreprises	Nombre d'actions ou valeur nominale	Valeur du marché (en milliers de dollars)
-------------	--	--

ACTIONS DE SOCIÉTÉS

Alcan Aluminium Liée	2 881 000	66 964
American Barrick Resources Corp.	1 305 600	41 779
American Home Products Corp.	276 800	27 069
American Telephone & Telegraph Co.	473 759	21 420
Amoco Corp.	210 100	11 927
Banque canadienne impériale de commerce	2 596 364	89 250
Banque de Montréal	1 328 300	58 113
Banque de Nouvelle-Écosse (La)	2 322 300	50 220
Banque Nationale du Canada	1 905 000	22 384
Banque Royale du Canada (La)	3 665 600	101 262
Banque Toronto-Dominion (La)	4 428 600	80 822
British Columbia Telephone Company	591 090	13 595
BCE Inc.	3 453 045	164 451
Bellsouth Corporation	179 400	10 729
Bombardier Inc.	653 500	18 619
Cambbridge Shopping Centres Ltd.	2 297 900	48 216
Canadien Pacifique Liée	3 570 100	64 262
Canadian Tire (La Société) Liée	975 200	21 820
Cara Operations Limited	2 012 900	11 275
Canadian Occidental Petroleum Ltd.	385 900	10 468
Coca-Cola Company	242 000	22 442
Cominco Ltd.	513 307	10 972
Compagnie Seagram Liée	696 100	91 546
Co-Steel Inc.	577 600	10 397
Dofasco Inc.	1 403 371	22 882
Echo Bay Mines Ltd.	1 164 900	10 049
Exxon Corporation	551 000	38 761
General Electric Company	919 900	30 863
GTE Corporation	319 500	12 784
Hitachi Ltd.	1 230 000	10 383
Imasco Limited	815 300	29 758
Imperial Oil Limitée	870 050	34 802
Inco Limited	1 380 600	48 666
International Business Machines Corporation	209 500	21 547
John Labatt Limited	522 300	13 319
LAC Minerals Ltd.	1 905 050	17 384
Laidlaw Inc.	2 644 700	26 842
Maclean Hunter Liée	1 693 200	19 472
Macmillan Bloedel Inc.	631 900	11 690
Merck & Company Inc.	304 900	58 665
Metal Mining Corporation	1 418 300	14 697
Mobil Corporation	190 500	14 942

TABLEAU DES DÉBENTURES DE LA PROVINCE DE L'ONTARIO

au 31 décembre 1991
(en millions de dollars)

Date d'échéance	Coupon %	Valeur du marché	Prix cotant
1992-1996	6,00 - 6,99	450	455
	8,00 - 8,99	299	296
	9,00 - 9,99	155	152
	10,00 - 10,99	209	197
	11,00 - 11,99	69	64
		1 182	1 164
1997-2001	7,00 - 7,99	117	120
	8,00 - 8,99	353	357
	9,00 - 9,99	1 084	1 026
	10,00 - 10,99	216	199
	11,00 - 11,99	810	717
	12,00 - 12,99	143	121
	13,00 - 13,99	167	137
	14,00 - 14,99	133	107
	16,00 - 16,99	214	165
		3 237	2 949
2002-2006	9,00 - 9,99	679	646
	10,00 - 10,99	863	803
	11,00 - 11,99	565	490
	12,00 - 12,99	1 999	1 626
	13,00 - 13,99	986	775
	14,00 - 14,99	446	335
		5 538	4 675
2007-2011	10,00 - 10,99	2 843	2 606
	11,00 - 11,99	2 835	2 485
	15,00 - 15,99	1 340	945
		7 018	6 036
2012	11,00 - 11,99	720	625
		17 695	15 449
		495	495
		18 190	15 944
			Intérêts courus

POINTS SAILLANTS DES ÉTATS FINANCIERS -

RÉTROSPECTIVE QUINQUENNALE

pour l'exercice terminé le 31 décembre

Régime de retraite
des enseignantes
et des enseignants
de l'Ontario

(en millions de dollars)

ÉVOLUTION DE L'ACTIF NET

Revenus de placement	1 896	1 957	1 532	1 344	1 166
Matérialisés					
Non matérialisés	1 947	(926)	-	-	-

Cotisations	3 843	1 031	1 532	1 344	1 166
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Participants	597	526	371	334	306
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Province de l'Ontario	654	579	404	366	333
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- services courants	270	187	-	-	-
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- engagements non capitalisés	9	8	6	5	5
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Autres employeurs	1 530	1 300	781	705	644
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Rachats de cotisations retirées et transferts	54	33	18	19	13
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Total des revenus	5 427	2 364	2 331	2 068	1 823
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Charges	806	742	435	361	300
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Prestations versées	23	18	13	8	13
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Frais d'administration	25	20	16	16	10
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Total des charges	854	780	464	385	323
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Augmentation de l'actif net	4 573	1 584	1 867	1 683	1 500
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ACTIF NET					
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Placements ⁽¹⁾	569	1 385	281	72	66
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Valeurs à court terme	18 190	16 449	16 274	12 881	11 260
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Débiteurs de la province de l'Ontario	601	295	-	-	-
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Obligations canadiennes	4 414	1 327	-	-	-
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Actions	180	-	-	-	-
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Biens immobiliers	16	-	-	-	-
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Hypothèques	23 970	19 456	16 555 ⁽²⁾	12 953 ⁽²⁾	11 326 ⁽²⁾
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Somme à recevoir de l'Ontario	1 190	945	738	671	616
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Autres éléments d'actif	9	-	33	26	24
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Passif	(472)	(277)	(238)	(11)	(10)
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Actif net disponible	24 697	20 124	17 088	13 639	11 956
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Ajustement de la valeur du marché	(883)	709	N/D	N/D	N/D
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Valeur actuarielle de l'actif net	23 814	20 833	N/D	N/D	N/D
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Valeur actuarielle des prestations de rente ⁽³⁾	27 479	24 391	N/D	N/D	N/D
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Déficit	3 665	3 558	N/D	N/D	N/D
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- (1) Les placements sont évalués à la valeur du marché depuis 1990, et au prix cotant pour les exercices antérieurs.
(2) Les opérations du compte du Fonds d'indexation des pensions n'ont pas été prises en compte dans les placements pour les exercices de 1987 à 1989.
(3) Les engagements de retraite ont été établis à des fins comptables à partir de 1990.

Statistiques
financières

Nous avons effectué une évaluation actuarielle de l'actif et des obligations du Régime de retraite des enseignants et des enseignants de l'Ontario (le « régime ») au 31 décembre 1991 en présumant de l'existence continue du régime, pour les inclure dans les états financiers du régime.

- L'évaluation du passif actuariel du régime a été fondée sur ce qui suit :
- les données sur la participation au 31 décembre 1990 fournies par le Conseil du régime de retraite des enseignants et des enseignants de l'Ontario (le conseil) ;
 - les méthodes prescrites par l'Institut canadien des comptables agréés relatives-ment aux états financiers des régimes de retraite ;
 - les hypothèses sur les événements à venir (par exemple, taux d'inflation futurs et taux de rendement futurs de l'actif de la caisse de retraite) qui nous ont été trans-mises à titre de meilleure estimation de ces événements, faite par le conseil ; et
 - les renseignements sur les salaires négociés pour 1990 et 1991 que nous a fournis la Commission des relations de travail en éducation.

L'objectif des états financiers est de présenter fidèlement la situation financière du régime au 31 décembre 1991 en présumant de l'existence continue du régime. La situation financière présentée dans ces états est différente de celle produite pour l'évaluation réglementaire (c'est-à-dire l'évaluation actuarielle requise en vertu de la Loi de 1989 sur le régime de retraite des enseignants et la Loi de 1987 sur les régimes de retraite), qui utilise des méthodes actuarielles prescrites en vertu de la Loi sur le régime de retraite des enseignants et des hypothèses conservatrices relativement aux évène-ments à venir afin d'établir un niveau prudent de cotisations futures.

Bien que les hypothèses actuarielles utilisées pour estimer le passif actuariel porté aux états financiers du régime représentent la meilleure estimation des événements à venir, faite par le conseil, et bien que, à notre avis, ces hypothèses soient raisonnables, l'expérience future du régime sera inévitablement différente, voire considérablement différente, par rapport aux hypothèses actuarielles. Tout écart entre les hypothèses actuarielles et l'expérience future se traduira par des gains ou des pertes dans les éva-luations ultérieures et aura une incidence sur la situation financière du régime et sur les cotisations requises pour le provisionnement du régime, à ce moment.

Selon certains tests de vraisemblance et de cohérence des données que nous avons faits, nous sommes d'avis que les données sont sûres et suffisantes pour l'application de l'évaluation. À notre avis, les méthodes utilisées sont conformes aux principes actuariels généralement reconnus, et les hypothèses sont appropriées pour l'applica-tion de l'évaluation. Notre opinion a été formulée et notre évaluation effectuée confor-mément aux principes actuariels généralement reconnus.

Lester J. Wong, F.C.I.A.

Le 7 février 1992

Malcolm F. Hamilton, F.C.I.A.

KPMG Peat Marwick Thorne

A L'ADMINISTRATEUR

Nous avons vérifié l'état de l'actif net disponible pour le service des prestations du Régime de retraite des enseignantes et des enseignants de l'Ontario au 31 décembre 1991 et l'état de l'évolution de l'actif net disponible pour le service des prestations de l'exercice terminé à cette date. La responsabilité de ces états financiers incombe à l'administrateur du régime. Notre responsabilité consiste à exprimer une opinion sur ces états financiers en nous fondant sur notre vérification.

Notre vérification a été effectuée conformément aux normes de vérification généralement reconnues. Ces normes exigent que la vérification soit planifiée et exécutée de manière à fournir un degré raisonnable de certitude quant à l'absence d'inexactitudes importantes dans les états financiers. La vérification comprend le contrôle par sondages des informations probantes à l'appui des montants et des autres éléments d'information fournis dans les états financiers. Elle comprend également l'évaluation des principes comptables suivis et des estimations importantes faites par la direction, ainsi qu'une appréciation de la présentation d'ensemble des états financiers.

À notre avis, ces états financiers présentent fidèlement, à tous égards importants, l'actif net du régime disponible pour le service des prestations au 31 décembre 1991, ainsi que l'évolution de son actif net disponible pour le service des prestations pour l'exercice terminé à cette date selon les principes comptables généralement reconnus.

Peat Marwick Thorne

Comptables agréés

Toronto, Canada

Le 7 février 1992

Rapport des
vérificateurs

8. COTISATIONS

(en milliers de dollars)		1991		1990	
Participants	560 612	36 298	506 704	18 639	
Services courants					
Rachats					
Province de l'Ontario					
Service courants					
(y compris des intérêts					
de 97 320 \$;					
1990 - 74 782 \$)	654 329	269 707	579 483	187 275	
Engagements non					
capitalisés					
Autres employeurs	8 858		8 347		
Services courants					
1 529 804		1 300 448			

9. PRESTATIONS VERSÉES

(en milliers de dollars)		1991		1990	
Rentes de retraite	733 225	673 536			
Rentes d'invalidité	21 404	20 113			
Prestations de décès					
Rentes de survie	47 344	44 420			
Paielements forfaitaires	4 454	3 869			
806 427		741 938			

10. FRAIS D'ADMINISTRATION

(en milliers de dollars)		1991		1990	
Salaires et charges sociales	13 720	11 506			
Locaux et matériel	4 293	3 794			
Services de consultation	2 505	1 976			
Communications et déplacements	1 873	1 785			
Honoraires de gestion					
des placements	1 323	55			
Frais de garde et de banque	747	312			
Papeterie et fournitures	537	564			
Rémunération des membres du conseil et des comités	146	148			
Honoraires de vérification	136	82			
Publications et droits réglementaires	63	41			
Frais divers	58	40			
25 401		20 303			

11. ÉVENTUALITÉS

a) Une réclamation a été faite au régime relativement à des mesures de correction entreprises par le conseil en septembre 1986 afin de se conformer à une interprétation juridique d'une loi antérieure. Ces mesures ont donné lieu à la réduction d'environ 1 500 rentes sur une base prospective. La Cour suprême de l'Ontario s'est prononcée en faveur de l'interprétation donnée par le conseil à l'égard de cette réclamation, mais le demandeur a interjeté appel.

b) En 1991, certains participants ont demandé au tribunal d'ordonner au conseil de retraite d'accepter leurs demandes de rachat de cotisations pour des interruptions de service après une période de suppléance. Le tribunal s'est prononcé en faveur de l'interprétation donnée par les participants et a émis l'ordonnance demandée. Plusieurs autres participants qui étaient des enseignants suppléants pourraient demander à racheter des cotisations en se fondant sur cette décision. Selon le conseil de retraite, le régime devra prendre en charge un coût actuariel éventuel de 576 millions de dollars de plus si tous les rachats possibles sont effectués. Le conseil de retraite a interjeté appel auprès de la Cour d'appel de l'Ontario.

L'issue de ces deux appels ne peut actuellement être déterminée avec certitude. Par conséquent, aucune provision n'a été constituée dans les présents états financiers. Tout règlement sera comptabilisé dans l'exercice au cours duquel il sera effectué.

12. ENGAGEMENTS

a) Au 31 décembre 1991, le régime s'est engagé à financer divers placements en titres de participation pour environ 98 millions de dollars.

b) Aux termes d'un contrat de location de bureaux, le régime s'est engagé à verser un loyer annuel de 1,3 million de dollars pour 1992, et de 1,8 million par année de 1993 à 1997.

13. CHIFFRES DONNÉS À DES FINS DE COMPARAISON

Certains chiffres présentés à des fins de comparaison ont été réajustés afin de permettre le rapprochement avec ceux de 1991.

La diminution de la valeur actuarielle actualisée des prestations constituées imputable aux modifications du régime a trait à la suppression du maximum de 35 années de services validables.

Les hypothèses ayant servi à déterminer la valeur actuarielle des prestations constituées tiennent compte des prévisions concernant la situation du marché à long terme. Les hypothèses actuarielles à long terme les plus importantes utilisées pour l'évaluation sont les suivantes :

Rendement de l'actif	1991	1990
pour exercices	10,25 %	10,50 %
jusqu'à l'an 2000	9,25 %	9,25 %
par la suite	5,75 %	6,00 %
Augmentations salariales	4,50 %	4,50 %
Taux d'inflation		

6. REVENUS DE PLACEMENT

(en milliers de dollars)		1991	1990
Intérêts			
Encaisse et valeurs à court terme	96 336	188 036	
Débitures de la province de l'Ontario	1 595 694	1 762 762	
Obligations canadiennes	69 371	1 022	
Hypothèques	457	—	
Dividendes			
Actions canadiennes	57 289	2 531	
Actions étrangères	39 657	3 193	
Biens immobiliers	3 565	—	
Gains matérialisés sur les placements	34 071	172	
Evolution non matérialisée de la valeur du marché des placements	1 947 145	(926 357)	
	3 843 585	1 031 359	

7. POLITIQUE DE CAPITALISATION

Conformément à la Loi de 1989 sur le régime de retraite des enseignants, les participants actifs doivent verser 8,9 % de leur salaire au régime.

Conformément à la Loi de 1989 sur le régime de retraite des enseignants, la province était tenue de fournir le solde de la capitalisation requise pour assurer que les prestations seront entièrement capitalisées au moment de la retraite des participants, d'après une évaluation fondée sur la continuité de l'exploitation au 1^{er} janvier 1990. Cette évaluation actuarielle initiale préparée par William M. Mercer Limitée conformément aux exigences de la Loi de 1989 sur le régime de retraite des enseignants et de la Loi de 1987 sur les régimes de retraite, a donné lieu, en raison de la nature des hypothèses retenues, à une dette actuarielle non capitalisée plus élevée que le déficit établi aux fins comptables.

La dette actuarielle non capitalisée de 7,8 milliards de dollars que cette évaluation initiale a mise en lumière sera réglée par la province sur une période de 40 ans commençant le 1^{er} janvier 1990, par voie de paiements spéciaux. Ces paiements mensuels sont évalués à un pourcentage constant de la rémunération future prévue, à partir duquel les prestations sont calculées, sur les prochains 40 ans, pour tous les participants actifs du régime au cours de cette période.

À partir du 1^{er} janvier 1990 et jusqu'à ce que l'évaluation initiale ait été déposée auprès de la Commission, la province était tenue d'effectuer des versements mensuels provisoires, tel qu'il est stipulé par la Loi de 1989 sur le régime de retraite des enseignants. L'écart entre les paiements effectués avant le dépôt de l'évaluation initiale le 1^{er} octobre 1991 et ceux requis pour cette période seront comblés par la province, intérêts compris, dans les 15 mois suivant l'approbation par la Commission de l'évaluation initiale. L'écart entre les paiements effectués et ceux requis selon l'évaluation initiale s'est élevé à 149 millions de dollars.

La province peut verser les paiements spéciaux par anticipation, les intérêts étant rajustés en conséquence. La Loi de 1989 sur le régime de retraite des enseignants exige également l'évaluation initiale du taux de capitalisation qui assurera que les cotisations futures couvriront les prestations et les charges futures. En se fondant sur l'évaluation initiale, le taux de cotisation a été maintenu à 8,9 %.

4. PLACEMENTS

a) Les placements comprennent les titres suivants :

(en milliers de dollars)		1991		1990	
Valeur	Prix	Valeur	Prix	Valeur	Prix
du marché	du marché	du marché	du marché	du marché	du marché
Debtures de la province de l'Ontario	18 189 737	15 944 065	16 449 120	15 964 917	15 964 917
Valeurs à court terme					
Bons du Trésor et billets à court terme	568 729	568 729	1 313 161	1 313 161	1 313 161
Dépôts à terme	210	210	72 000	72 000	72 000
Actions					
Canadiennes	2 618 499	2 537 631	519 862	505 776	505 776
Etrangères	1 795 719	1 504 165	806 680	775 029	775 029
Obligations canadiennes	601 527	583 833	295 419	296 530	296 530
Biens immobiliers	179 629	179 629	—	—	—
Hypothèques	15 682	15 682	—	—	—
	23 969 732	21 333 944	19 456 242	18 927 413	18 927 413

Ces chiffres comprennent les intérêts courus et les dividendes de 519 854 \$ (502 462 \$ en 1990).

La valeur actuarielle actualisée des prestations au 31 décembre et les principales composantes de l'évolution des valeurs actuarielles actualisées au cours de l'exercice ont été établies comme suit:

(en milliers de dollars)		1991		1990	
Valeur actuarielle actualisée des prestations	de l'exercice	Valeur actuarielle actualisée des prestations	de l'exercice	Valeur actuarielle actualisée des prestations	de l'exercice
Intérêts cumulés sur les prestations	2 588 000	2 309 000	2 588 000	2 309 000	2 588 000
Prestations constituées	1 180 000	923 000	1 180 000	923 000	1 180 000
Prestations versées	(818 000)	(753 000)	(818 000)	(753 000)	(818 000)
Modifications du régime	(305 000)	—	(305 000)	—	(305 000)
Variation des hypothèses actuarielles	164 000	—	164 000	—	164 000
Pertes actuarielles	279 000	—	279 000	—	279 000
Valeur actuarielle actualisée des prestations constituées à la fin de l'exercice	27 479 000	24 391 000	27 479 000	24 391 000	27 479 000

b) La valeur actuarielle de l'actif net disponible pour le service des prestations a été établie de manière à tenir compte des tendances à long terme du marché (en conformité avec les hypothèses retenues pour l'évaluation des prestations constituées). Cette valeur est obtenue en ajustant les valeurs du marché pour tenir compte de tout écart entre les rendements réel et prévu du régime, de façon uniforme sur une période de cinq exercices. Cet ajustement a eu pour résultat de réduire de 883 millions de dollars l'actif net disponible pour le service des prestations, en regard d'une augmentation de 709 millions de dollars en 1990.

5. ENGAGEMENTS DE RETRAITE

La valeur actualisée des prestations de retraite constituées a été déterminée conformément aux principes comptables généralement reconnus pour les régimes de retraite, selon la méthode de la répartition des prestations au prorata des années de service et à partir des hypothèses les plus probables du conseil. La méthode actuarielle et les hypothèses différent de celles utilisées dans l'établissement des engagements de retraite aux fins de la capitalisation, tel qu'il est décrit à la note 7. Le cabinet d'actuaire, William M. Mercer Limite, a établi la valeur actuarielle au 1^{er} janvier 1991, et cette valeur a été actualisée par extrapolation au 31 décembre 1991.

tion, la Caisse de retraite des enseignantes et des enseignants de l'Ontario, pour la constitution des prestations.

En décembre 1991, la législature de l'Ontario a adopté la Loi de 1991 modifiant la Loi sur le régime de retraite des enseignants (la loi de modification), pour permettre la création d'un partenariat sur un pied d'égalité entre la province et les participants. Au titre de ce partenariat, ils sont corépondants du régime et en assumant la gestion et la responsabilité financière. La loi de modification est entrée en vigueur le 1^{er} janvier 1992.

Aux termes de la loi de modification, la province et les participants au régime finiront par se partager à parts égales les gains ou les pertes actuariels futurs. Ce partage se fera progressivement sur une période de cinq ans, basé sur les évaluations actuarielles, comme suit :

Partie à partager également entre les participants au régime et la province	
Du 1 ^{er} janv. 1990 au 31 déc. 1991	0 %
Du 1 ^{er} janv. 1992 au 31 déc. 1993	40 %
Du 1 ^{er} janv. 1994 au 31 déc. 1996	60 %
Après le 1 ^{er} janv. 1997	100 %

Jusqu'au 31 décembre 1996, la province utilisera la partie non partagée de tout gain pour réduire le déficit actuariel au 1^{er} janvier 1990. La province remettra à la caisse la partie non partagée de toute perte en effectuant des versements spéciaux sur une période d'au plus 15 ans.

La province et les participants doivent s'entendre sur l'affectation de la partie partagée de tout gain ou de toute perte. Les gains peuvent servir à réduire le taux de cotisation ou à augmenter les prestations. On prévoit que les pertes seront compensées par une augmentation du taux de cotisation.

(g) Retraits
Sous réserve des dispositions d'immobilisation des cotisations, les remboursements en cas de sortie du régime et les transferts, y compris les intérêts, sont payables lorsqu'un participant cesse d'avoir un emploi dans le secteur de l'enseignement.

(h) Impôts sur le revenu
Le régime est un régime de rente agréé en vertu de la Loi de l'impôt sur le revenu et, par conséquent, il n'est pas assujéti à l'impôt sur le revenu. Le numéro d'enregistrement du régime est le 0345785.

i) Indexation des prestations
Les prestations de retraite sont rajustées en fonction de l'inflation à 100 % de l'indice des prix à la consommation, sous réserve d'un maximum de 8 % par année, tout excédent étant reporté.

2. MODIFICATIONS AUX CONVENTIONS COMPTABLES

En date du 1^{er} janvier 1991, le régime a changé sa méthode de comptabilisation des immobilisations pour une base prospective. Auparavant, les immobilisations étaient imputées à l'exercice de leur acquisition. Les immobilisations sont maintenant capitalisées et amorties sur leur durée d'utilisation estimative. Ce changement permet un plus juste rapprochement de la dotation aux amortissements et des revenus courants. L'effet de ce changement sur les résultats de 1991 et des exercices précédents n'a pas été assez important pour donner lieu au retraitement des résultats des exercices précédents.

3. LOI DE 1989 SUR LE RÉGIME DE RETRAITE DES ENSEIGNANTS ET LOI DE 1991 LA MODIFIANT

La législature de l'Ontario a modifié la loi régissant le régime de retraite en date du 31 décembre 1989. La Loi de 1989 sur le régime de retraite des enseignants a remplacé l'ancienne loi, mais a prorogé le régime énoncé dans celle-ci, y compris les prestations découlant de la Loi sur l'indexation des régimes de retraite.

La Loi de 1989 sur le régime de retraite des enseignants a aussi désigné le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario (le conseil de retraite) administrateur du régime et gestionnaire de la caisse de retraite. La Caisse de retraite des enseignants a été prorogée sous une nouvelle appellation.

SOMMAIRE DES PRINCIPALES
CONVENTIONS COMPTABLES**a) Mode de présentation**

Les présents états financiers présentent la situation financière globale du Régime de retraite des enseignants et des enseignants de l'Ontario (le régime) considéré comme une entité distincte, indépendante de ses corépondants et de ses participants.

b) Placements

Les placements sont présentés à la valeur du marché et sont inscrits à la date où ils sont négociés. Les débentures de la province de l'Ontario, qui ne sont pas négociables, sont inscrites à la valeur du marché estimative calculée en actualisant le flux monétaire d'après les rendements de titres comparables sur le marché à la fin de l'exercice. Les titres du marché monétaire sont inscrits à la fraction non amortie du coût, qui se rapproche de la valeur du marché. Les obligations et les actions sont évaluées aux cours du marché à la fin de l'exercice. Les placements immobiliers sont évalués par des évaluateurs indépendants.

c) Cotisations de la province de l'Ontario

Les paiements spéciaux et provisionnels de la province de l'Ontario (la province) sur la dette non capitalisée sont inscrits à l'exercice au cours duquel ils sont reçus.

d) Conversion des devises

Les opérations en devises sont converties en dollars canadiens au taux de change en vigueur à la date de l'opération. La valeur du marché des placements et les soldes d'encaisse libellés en devises et figurant à l'état de l'actif net sont convertis au taux en vigueur à la fin de l'exercice. Le gain ou la perte non matérialisée(e) ainsi enregistrée(e) figure à l'état de l'actif net disponible pour le service des prestations.

e) Prestations

Les versements des prestations, les remboursements et les transferts sont inscrits à l'exercice au cours duquel ils sont effectués.

1. DESCRIPTION DU RÉGIME

a) Généralités

La description suivante du régime n'est qu'un résumé. Pour obtenir plus de renseignements, il y a lieu de se reporter à la Loi sur le régime de retraite des enseignants.

Le régime est un régime de retraite contributif à prestations déterminées dont les corépondants sont la province de l'Ontario et les participants. Ce régime est obligatoire pour la plupart des personnes qui sont admissibles à y participer. Les cotisations sont versées par les participants actifs, par des écoles privées et par les participants désignés et par la province. Le régime est enregistré auprès de la Commission des régimes de retraite de l'Ontario sous le numéro C008450.

b) Capitalisation

Les prestations aux termes du régime sont capitalisées par voie de cotisations et de revenus tirés de leur placement. Le calcul de la valeur des prestations est effectué d'après des évaluations actuarielles (se reporter à la note 5). En vertu du paragraphe 5 (3) de la Loi, la province est tenue de couvrir toute insuffisance annuelle du flux monétaire après l'aliénation de tous les éléments d'actif du régime pouvant être vendus.

c) Rentes de retraite

Des rentes de retraite sont offertes d'après le nombre d'années de service décomptées, le salaire moyen des cinq meilleures années et l'âge du participant au moment du départ à la retraite. Un participant est admissible à une rente de retraite réduite à partir de l'âge de 55 ans. Si la somme de l'âge du participant et de ses années de service équivaut à 90, une rente de retraite non réduite peut lui être versée, à 65 ans ou à tout autre âge.

d) Rentes d'invalidité

Des rentes d'invalidité sont offertes à tout âge, aux participants frappés d'invalidité, sous réserve d'un minimum de 10 années de service décomptées. Le type de rente est fonction du degré d'invalidité.

e) Prestations de décès

Des prestations de décès sont offertes au décès d'un participant et pourraient l'être au décès d'un retraité. Les prestations peuvent être versées sous forme d'une rente de survie ou d'une somme forfaitaire, ou des deux.

f) Rachat de cotisations

Les participants peuvent racheter des cotisations corépondant à des congés autorisés, des interruptions de service ou des transferts provenant d'autres régimes.

ETAT DE L'ÉVOLUTION DE L'ACTIF NET DISPONIBLE POUR LE SERVICE DES PRESTATIONS

pour l'exercice terminé le 31 décembre 1991

Régime de retraite
des enseignants
et des enseignants
de l'Ontario

(en milliers de dollars)		1991	1990
Revenus			
Revenus de placement (note 6)	1 896 440	1 957 716	
Évolution non matérialisée de la valeur du marché des placements (note 6)	1 947 145	(926 357)	
Cotisations (note 8)	1 529 804	1 300 448	
Rachats de cotisations retirées	29 181	13 342	
Transferts provenant d'autres régimes	24 590	19 262	
Charges			
Prestations versées (note 9)	806 427	741 938	
Remboursement de cotisations	11 272	11 180	
Transferts à d'autres régimes	11 527	6 816	
Frais d'administration (note 10)	25 401	20 303	
Augmentation de l'actif net			
	4 572 533	1 584 174	
Actif net disponible pour le service des prestations, au début de l'exercice			
	20 124 332	18 540 158	
Actif net disponible pour le service des prestations, à la fin de l'exercice			
	24 696 865	20 124 332	

ÉTAT DE L'ACTIF NET DISPONIBLE POUR LE SERVICE
DES PRESTATIONS, ET PRESTATIONS CONSTITUÉES
au 31 décembre 1991

(en milliers de dollars)		1991	1990
ACTIF NET			
Actif			
Placements (note 4 a))	23 969 732	19 456 242	
Somme à recevoir de la province de l'Ontario	1 059 409	848 701	
Cotisations patronales	130 420	96 182	
Intérêts sur les cotisations patronales			
Encaisse	1 189 829	944 883	
Immobilisations (note 2)	1 477		
	25 168 988	20 401 125	
Passif			
Dettes bancaires		2 534	
Créditeurs et charges à payer	2 036	13 397	
Somme à payer aux courtiers	470 087	260 862	
	472 123	276 793	
Actif net disponible pour le service des prestations			
	24 696 865	20 124 332	
Ajustement de la valeur du marché (note 4 b))	(883 000)	709 000	
Valeur actuarielle de l'actif net disponible pour le service des prestations			
	23 813 865	20 833 332	
PRESTATIONS CONSTITUÉES			
Valeur actuarielle des prestations constituées (note 5)	27 479 000	24 391 000	
Déficit			
	3 665 135	3 557 668	

Au nom du conseil,
Le président,

Un membre du conseil,

Joseph W. Anderson

Les états financiers du Régime de retraite des enseignants et des enseignants de l'Ontario ont été dressés par la direction, qui est responsable de l'intégrité et de la justesse des données présentées, y compris les nombreux montants devant être nécessairement fondés sur des estimations et des hypothèses. Ces états financiers ont été dressés suivant les conventions conformes aux principes comptables généralement reconnus. Les renseignements financiers présentés dans le rapport annuel sont en conformité avec les états financiers.

Des systèmes de contrôle interne et des procédures d'appoint sont maintenus pour fournir la certitude que les opérations sont autorisées, que l'actif du régime est préservé et que les dossiers sont tenus avec exactitude. Ces contrôles comprennent des normes de qualité à l'engagement et la formation du personnel, un code deontologique écrit, une structure organisationnelle où la répartition des tâches est nettement définie, avec obligation de rendre compte du rendement, ainsi que la communication des politiques et des directives à tous les échelons. Les contrôles internes sont évalués et révisés au moyen de programmes approfondis de vérification interne, lesquels sont soigneusement examinés par les vérificateurs externes.

La responsabilité des états financiers incombe au conseil d'administration, secondé par le

Le président et chef
de la direction,

C. Lamoureux

Claude R. Lamoureux

Le vice-président aux finances,

Ian B. McLeod

Ian B. McLeod

Les vérificateurs externes du régime, Peat Marwick Thorne, ont effectué une vérification indépendante des états financiers selon les normes de vérification généralement reconnues. Leur vérification a comporté les sondages et autres procédés qu'ils ont jugés nécessaires pour exprimer leur opinion dans leur rapport à l'administrateur. Les vérificateurs externes ont libre accès auprès du comité de vérification et d'actuarial pour discuter de leur vérification et de leurs constatations quant à la fidélité de la présentation des renseignements financiers et à la suffisance des systèmes de contrôle interne.

RAPPROCHEMENT DES DIFFÉRENTES

Les évaluations réglementaires et les évaluations

comptables présentent des différences fondamentales dans leur approche. Par exemple, l'évaluation comptable, contrairement à l'évaluation réglementaire, ne tient pas compte des prestations non encore acquises ni des cotisations futures.

Bien que ces deux approches envisagent l'avenir sous des rapports différents, ni l'une ni l'autre ne peut donner des prévisions exactes pour un avenir lointain. L'évaluation réglementaire penche délibérément vers des résultats prudents relativement à la capitalisation. L'évaluation comptable tente de présenter la capitalisation dans une situation plus raisonnable.

La différence entre les deux approches se manifeste dans les taux de rendement estimatifs des placements. L'évaluation comptable, qui se veut réaliste, prévoit un taux de rendement de 10,25 %, tandis que l'évaluation réglementaire, de nature prudente, le réduit à 8,5 %.

Les déficits qu'indiquent ces évaluations ne sont que des pronostics appelés à changer dès que les hypothèses retenues sont révisées en réponse aux événements qui se produiront en réalité. Néanmoins, les évaluations donnent deux perspectives de la situation financière à long terme, de sorte qu'il soit possible d'apporter les ajustements voulus afin que les revenus de placement et les cotisations permettent de pourvoir aux rentes de retraite prévues.



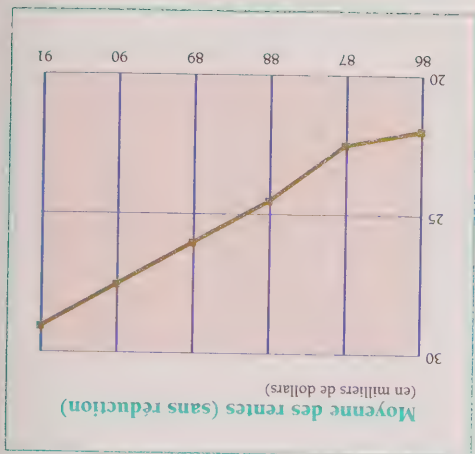
PERSPECTIVES

En 1992, nous prévoyons que les revenus nets à placer atteindront 2,7 milliards de dollars.

Notre priorité en 1992 est de poursuivre la diversification du portefeuille, en mettant l'accent sur les titres de participation, y compris les actions, les biens immobiliers productifs de revenus et les placements privés. Nous visons une composition d'au moins les deux tiers en titres de participation et le tiers en valeurs à revenu fixe.

À long terme, notre tâche consiste à placer judicieusement les fonds disponibles afin que le régime puisse pourvoir aux rentes des participants, à un coût raisonnable pour eux comme pour les répondants du régime.

À long terme, notre tâche consiste à placer judicieusement les fonds disponibles afin que le régime puisse pourvoir aux rentes des participants, à un coût raisonnable.



tion des hypothèses actuarielles, le déficit a augmenté de 164 millions de dollars.

ÉVALUATION ACTUARIELLE

RÉGLEMENTAIRE

La Loi sur le régime de retraite des enseignants et la Loi sur les régimes de retraite exigent une évaluation de la capitalisation au moins tous les trois ans. L'évaluation réglementaire tient compte de l'actif et du passif à court terme, ainsi que des cotisations futures et des prestations non acquises des participants actuels. Elle a pour but de prévoir la valeur de l'actif et du passif tout au long de leur vie.

Comme il se doit, l'évaluation réglementaire adopte l'approche prudente exigée par la loi et par la Commission des régimes de retraite de l'Ontario. C'est-à-dire, les hypothèses sur les tendances économiques et démographiques qui prévaudront dans 70 ans doivent être faites avec modération. Cette approche permet une marge de sécurité pour assurer aux participants le service des prestations de rente promises.

L'évaluation réglementaire servira à établir le partage des excédents ou des déficits entre le gouvernement de l'Ontario et la Fédération des enseignants et des enseignants de l'Ontario, corépondants du régime.

aujourd'hui. L'actuaire a confirmé à 8,9 % le taux de cotisation des enseignants et de la province ; ce taux devrait permettre au régime de pourvoir aux prestations futures et aux charges administratives afférentes.

ÉVALUATION ACTUARIELLE

COMPTABLE

Par mesure de prudence, nous évaluons aussi la capitalisation future du régime d'après le coût des prestations futures déjà acquises aux participants. Cette évaluation, faite par William M. Mercer Limitée, est fondée sur les hypothèses de la direction.

À la fin de l'exercice 1991, la capitalisation du régime présentait un déficit estimatif de 3,7 milliards de dollars, soit 13,3 % du total du passif, en regard de 3,6 milliards et 14,6 % un an plus tôt. Comme l'indique le tableau ci-contre, nous avons rajusté deux hypothèses clés de 1991, relatives aux futurs taux de rendement et aux augmentations de salaire, en fonction du changement des tendances économiques et démographiques.

La suppression du maximum de 35 années de service d'enseignement validables a eu pour résultat un gain de 305 millions de dollars. Toutefois, les augmentations de salaire des enseignants en 1991 ont dépassé les prévisions de l'actuaire, ce qui a entraîné une perte imprévue de 279 millions. Par suite de la modifica-

Comparaison d'hypothèses					
Evaluation	Evaluation	Taux de rendement	Inflation des salaires	Indice des prix à la consommation	Taux de rendement réel
«prudente»	«meilleure estimation»	8,5 %	5,75 %	+ ancienneté	4 %
		10,25 % *	5,75 %	+ ancienneté	5,75 % **
1 ^{er} jan. 1990	31 déc. 1991				
de l'actuaire du conseil de retraite		Déficit actuariel			
		7,8 milliards de dollars			
		3,7 milliards de dollars			
		* De 1992 à 2000 : 9,25 % par la suite			
		** De 1992 à 2000 : 4,75 % par la suite			

Les cotisations dépassent largement les annuités de rente et les autres engagements, et nous prévoyons qu'il en sera ainsi pendant plusieurs années.

Ce processus de correspondance donne lieu à une grande préoccupation : l'inflation non anticipée. Les rentes de retraite sont indexées, jusqu'à concurrence de 8 % l'an. L'inflation favorise la montée des taux d'intérêt, ce qui réduit la valeur du marché des valeurs à revenu fixe, telles que les débentures et les obligations, et donc, la valeur de l'actif disponible pour faire face aux engagements de rentes futures. Pour compenser ce risque d'accroissement des engagements et de baisse des valeurs, nous cherchons à investir une partie de nos fonds frais dans des placements dont le comportement sera positif en cas d'inflation non anticipée.

La somme des cotisations annuelles des participants et du gouvernement, augmentée des revenus de placement prévus, dépasse largement les annuités de rente et les autres engagements, et nous prévoyons qu'il en sera ainsi pendant plusieurs années.



LIQUIDITÉS

Nous avons besoin de liquidités principalement pour couvrir les prestations à verser, les frais du programme de placement et les frais administratifs. Les régimes de retraite ne peuvent emprunter aux fins de placement, mais peuvent le faire, pour un maximum de 90 jours, à des fins liées à leur fonctionnement.

EVALUATION DE LA CAPITALISATION AVANT 1990

Au début de 1990, il était reconnu que la valeur de l'actif du régime et la valeur des cotisations futures aux taux actuels ne suffiraient pas à couvrir les prestations futures des participants actuels.

Selon la Loi sur le régime de retraite des enseignants, le conseil de retraite devait charger un actuaire indépendant d'établir le montant des engagements légaux au 1^{er} janvier 1990, des cotisations normales des enseignants actifs et des cotisations d'équivalence du gouvernement, ainsi que le montant des versements spéciaux échelonnés sur 40 ans que celui-ci devra effectuer pour liquider les déficits antérieurs.

C'est le cabinet d'actuaire-conseils William Mercer Limited que le conseil de retraite a chargé de cette évaluation et de la fixation du taux de cotisation. Le 1^{er} janvier 1990, le déficit actuariel s'élevait à 7,8 milliards de dollars, soit 19 % du total du passif. La province s'est engagée à combler ce déficit d'ici l'an 2030. Les versements effectués en 1990 et 1991 ont totalisé 457 millions, ce qui est approximativement 149 millions de moins que la somme précisée dans l'évaluation. Selon la loi, cette différence doit être versée dans les 15 mois suivant l'approbation du rapport actuariel par la Commission des régimes de retraite de l'Ontario. Les versements fixés par la nouvelle évaluation ont commencé en octobre 1991.

ACROISSEMENT DES REVENUS

Au début de 1991, le régime disposait d'un actif net de 20,1 milliards de dollars, et il a reçu des revenus de 3,5 milliards au cours de l'exercice. Déduction faite des charges, les sommes à placer se sont élevées à 2,6 milliards de dollars, en regard de 2,5 milliards en 1990, exercice où les revenus bruts s'étaient chiffrés à 3,3 milliards. Ces fonds proviennent principalement des deux sources suivantes :

- Les produits de placements, qui se sont élevés à 1,9 milliard en 1991, soit un montant presque égal à celui de l'exercice précédent.

- Les cotisations des participants et de la province, ainsi que les versements spéciaux du gouvernement provincial. Leur total a atteint 1,6 milliard de dollars, comparé à 1,3 milliard un an plus tôt. La progression de presque 18 % des cotisations salariales et provinciales est attribuable aux augmentations de traitement, à la transformation de postes d'enseignement à temps partiel en postes à plein temps, et à l'augmentation du nombre de participants. Les versements spéciaux du gouvernement sur le déficit actuariel ont totalisé 270 millions de dollars, en regard de 187 millions pour l'exercice précédent.

CHARGES

Les prestations servies sont passées à 806 millions de dollars, comparativement à 742 millions en 1990. Cette augmentation comprend une revalorisation de 4,8 % pour 1991. Au cours de l'exercice, 1930 enseignants sont partis à la retraite, ce qui porte à 39 700 le nombre des prestataires.

Les remboursements de cotisations et le transfert de droits à d'autres régimes de retraite ont atteint 22,8 millions de dollars, par rapport à 18 millions un an plus tôt.

AUGMENTATION DE L'ACTIF NET

Au poste des charges, la seule autre catégorie a trait à l'administration du régime. Ces frais ont augmenté de 5,1 millions de dollars pour passer à 25,4 millions. Comme l'explique le président et chef de la direction dans son rapport en page 12, cette augmentation est principalement imputable à la création de la Division des placements et au développement très marqué des opérations de placement.

Déduction faite des charges (prestations versées et autres frais) sur les produits (revenus de placement, cotisations et autres produits), le régime a dégagé en fin d'exercice une augmentation net de 4,6 milliards de dollars de l'actif net, contre 1,6 milliard en 1990. Les résultats de 1991 comprennent un bénéfice non matérialisé de 1,9 milliard (augmentation de la valeur du marché des éléments d'actif) et un bénéfice de 1,9 milliard matérialisé (composé principalement d'intérêts sur les valeurs à revenu fixe et de dividendes sur les actions).

La somme des revenus matérialisés et non matérialisés, ajoutée à l'actif net enregistré au début de l'exercice, porte à 24,7 milliards de dollars l'actif net disponible à la fin de 1991 pour le service des prestations futures. Ce chiffre représente un accroissement de 4,6 milliards, soit de 22,7 %, de l'actif net du régime.

GESTION DE L'ACTIF ET DU PASSIF

Notre stratégie de placement a pour but de permettre au régime de faire face à ses engagements. Ceux-ci étant à longue échéance, ils sont largement couverts par des placements à long terme.

- Nous mesurons le rendement des catégories de placements d'après les points de référence suivants :
- Actions canadiennes – l'indice des 300 de la BT. Il mesure le rendement global (la variation de la valeur des actions et les dividendes) des 300 sociétés formant l'échantillon représentatif de celles inscrites à la cote de la Bourse de Toronto.
 - Actions américaines – l'indice des 500 de S&P. L'indice de Standard & Poor mesure le rendement global de 500 grandes sociétés inscrites à la cote de la Bourse de New York.
 - Actions autres que nord-américaines – l'indice *canadien SM Univer*, établi par Morgan Stanley Capital International. Cet acronyme désigne un portefeuille d'actions d'importantes sociétés d'Europe, d'Australie et d'Extrême-Orient.
 - Titres du marché monétaire – le rendement des bons du Trésor de 90 jours.
 - Obligations canadiennes – l'indice *obligataire canadien SM Univer*. Cet indice, créé par la maison de courtage en valeurs mobilières Scotia McLeod, mesure le rendement de toutes les obligations au Canada. Nous comparons nos obligations du Canada avec les obligations gouvernementales comprises dans le SM Univer.
 - Débiteures de l'Ontario – ces placements sont comparés avec le *SM Univer* pour les obligations gouvernementales.

Dès que nous aurons accompli quatre années d'opérations de placement, et que la composition du portefeuille aura atteint le degré de diversification que vise notre politique de placement, la comparaison, par catégorie de placements, des taux moyens de rendement avec des points de référence externes nous sera utile pour le suivi.

Le conseil d'administration a passé en revue notre stratégie de placement à long terme, et fixé pour 1992 un objectif de composition pour chaque catégorie de placements. Les administrateurs pourront ainsi comparer le rendement réel en fin d'exercice tant avec ces objectifs qu'avec les points de référence externes.

Le régime de retraite a dégagé de bons résultats en 1991, affichant, à la valeur du marché, un taux de rendement de 19,6 %, comparé à 5,6 % en 1990. Toutefois, nous ne pouvons nous attendre que des résultats aussi exceptionnels se maintiennent à long terme, étant donné le caractère cyclique des marchés. Sur les deux derniers exercices, notre rendement de 12,4 % dépasse de 8 % le taux d'inflation. L'objectif que nous nous sommes fixé est un rendement excédant de 4,5 % le taux d'inflation, sur une moyenne mobile calculée sur quatre ans.

Le régime de retraite a dégagé de bons résultats en 1991, affichant, à la valeur du marché, un taux de rendement de 19,6 %, comparé à 5,6 % en 1990.

Ce rendement se compare avec une médiane de 17,3 % pour les caisses de retraite en gestion commune, à portefeuille équilibré, et de 18,1 % pour un indice composé de placements diversifiés, selon les données de TPF&C Limitée, cabinet d'actuaire-conseils. La comparaison avec ces autres caisses de retraite n'a qu'une valeur restreinte, du fait que notre régime, encore dominé par un portefeuille consistant de débiteures de la province, est loin d'avoir atteint la composition équilibrée que nous souhaitons.

Taux de rendement, par catégorie des placements		%	
		1991	1990
Actions canadiennes	10,4	8,9*	
Actions américaines	30,9	10,9*	
Actions autres que nord-américaines	5,9	—	
Obligations canadiennes	18,8	—	
Débiteures de l'Ontario	20,4	5,4	
Marché monétaire	11,8	13,2	
Ensemble du portefeuille	19,6	5,6	

*D'octobre à décembre seulement



PLACEMENTS SUR LE MARCHÉ

MONÉTAIRI

Comme nous avons pour objectif de faire fructifier tous les fonds en attendant de les placer en titres à long terme, notre portefeuille d'effets financiers, qui se situait à 1,4 milliard de dollars en 1990, a baissé à 569 millions. Approximativement les deux tiers de ces effets sont des bons du Trésor du Canada.

ÉVOLUTION DE LA VALEUR DU

MARCHÉ DE L'ACTIF

La régression marquée des taux d'intérêt pendant le dernier semestre de l'exercice a eu pour effet d'augmenter la valeur du marché de nos valeurs à revenu fixe, qui comprennent principalement des débentures de l'Ontario. Bien que ces débentures ne puissent être vendues, leur valeur peut être établie en escomptant le flux monétaire en fonction du rendement que le marché boursier a connu une bonne expansion au début de l'exercice, les actions américaines ayant

affiché une tenue exceptionnelle. Il en a résulté une augmentation de la valeur du marché des actions acquises pendant l'exercice.

La valeur du marché globale de l'actif du régime s'est accrue de 1,9 milliard de dollars en 1991. Au cours de l'exercice précédent, cette valeur avait diminué de 926 millions par suite de la baisse que les débentures avaient subie pendant une période de montée des

taux d'intérêt.

Nous gérons ces débentures de la même manière que les autres obligations, soit en vue de rendements maximaux à des risques réduits. Nous y parvenons en utilisant, entre autres, des instruments financiers dits « dérivés », tels que les contrats d'options et les contrats à long terme d'obligations.

Les instruments dérivés ne sont pas des placements spéculatifs; au contraire, ils nous permettent, suivant notre politique de prudence, de nous protéger contre les risques qu'entraînent les fluctuations des taux d'intérêt et les autres facteurs du marché qui sont indépendants de notre volonté.

La valeur du marché du portefeuille-débentures diminue d'environ 6,5 % par 1 % de hausse des taux d'intérêt, et vice versa. Sous l'effet de cette évolution, la valeur du marché des débentures a baissé de 926 millions de dollars en 1990, et augmenté de 1,8 milliard en 1991.

AUTRES PLACEMENTS

EN OBLIGATIONS CANADIENNES

Nous avons plus que doublé le portefeuille d'obligations canadiennes, qui est passé de 295 millions de dollars à 601 millions au cours de l'exercice. Ce portefeuille, qui constitue environ 2 % du total de l'actif, est négocié activement.

Débentures de la province de l'Ontario

(en millions de dollars)

Date d'échéance	Valeur du marché
1992 - 1996	1 182
1997 - 2001	3 237
2002 - 2006	5 538
2007 - 2011	7 018
2012	720



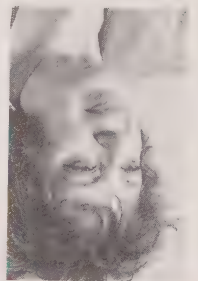
PLACEMENTS PRIVÉS

Nous avons effectué sept placements privés en 1991, et y avons engagé plus de 100 millions de dollars. Il ne s'agit pas de placements spéculatifs ; ils ne présentent qu'un risque limité.

Pour augmenter l'efficacité du programme, nous avons décidé de faire des placements privés directs et indirects. Notre petite équipe de spécialistes évalue et négocie les placements directs. Nous avons confié à des groupes de gestionnaires externes, avec qui nous avons formé des alliances étroites, le soin d'effectuer les placements indirects.

Le programme de placements privés nous permet de répartir les risques et d'aider des petites entreprises à réaliser leur potentiel de stabilité financière, de mise au point de produits, de croissance sur le marché et de création d'emplois.

Nous sommes convaincus que le potentiel de stabilité financière, de mise au point de produits, de croissance et de création d'emplois.



Trois placements directs ont été effectués dans des entreprises solidement établies et dont la rentabilité a été soutenue. Ce sont : Commcorp Financial Services Inc., grande société nationale de financement et de location de matériel ; Strong Equipment Corporation, distributeur national de matériel de construction ; et White Rose Crafts and Nursery Sales Limited, détaillant de fournitures pour le jardinage, l'entretien paysager et l'artisanat dans tout l'Ontario.

Quatre placements indirects ont été effectués par l'intermédiaire de sociétés en commandite et de banques d'affaires se spécialisant dans les médias, tels que la télédistribution, les journaux communautaires et d'autres entreprises médiatiques.

PLACEMENTS EN DÉBENTURES DE L'ONTARIO

Les débentures non négociables, augmentées des intérêts courus, continuent de dominer l'actif ; s'élevant à 18,2 milliards de dollars, elles constituent 76 % des placements. Bien que nous cherchions activement à acquérir des actions et d'autres placements, le fléchissement marqué des taux d'intérêt au cours de l'exercice a eu pour effet d'augmenter la valeur des débentures, de sorte que leur proportion du portefeuille, calculée d'après la valeur du marché, est demeurée prédominante.

En 1991, les débentures arrivées à échéance se chiffraient à 19 millions de dollars, en regard de 350 millions en 1990. Rien que 7 % de ces débentures doivent échoir avant 1997, et 40 % échoient à partir de l'an 2007. Leur nature non négociable et leur longue échéance entravent la diversification du portefeuille.

Au cours des 10 prochaines années, la valeur du portefeuille de placements privés pourrait dépasser les 2 milliards de dollars, ce qui le classerait parmi les plus importants fonds communs de placement actifs dans des sociétés en croissance. Ces placements constitueraient alors moins de 3 % du total de l'actif.

Certains facteurs, tels que l'effet de la récession sur les valeurs du marché, ont fait du Canada, de l'Ontario en particulier, un terrain propice à l'investissement, en ce sens que les entreprises en pleine croissance ayant besoin de fonds sont faciles à repérer. En 1992, nous prévoyons examiner plus de 200 propositions portant, chacune, sur une infusion de capitaux allant de 10 millions à 100 millions de dollars. Notre objectif pour l'année est d'investir un maximum de 200 millions de dollars, mais ce montant dépendra de l'acceptabilité des risques et des prévisions de rendement.

Nous nous acquitons de nos responsabilités fiduciaires en suivant la règle « du bon père de famille ». C'est-à-dire, nous exercerons nos droits de vote à l'appui d'une conduite responsable, mais sans favoriser une cause sociale ou politique extrême en particulier.

Nous exerçons nos droits de vote à l'appui d'une conduite responsable, mais sans favoriser une cause sociale ou politique extrême en particulier.

de rendement à long terme.

PLACEMENTS IMMOBILIERS

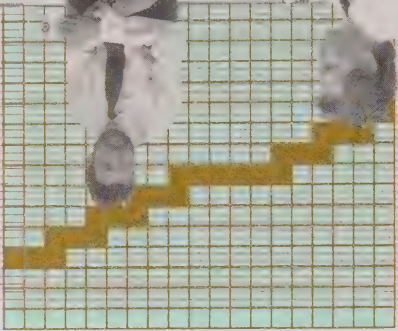
Une filiale en propriété exclusive, Ontrea Inc., a été constituée pour faciliter nos placements sur le marché immobilier au Canada. L'an dernier, nous avons examiné des offres d'une valeur totale de plus de 2 milliards de dollars, y compris des portefeuilles diversifiés. Nous avons recherché des propriétés bien gérées qui ajouteraient de la stabilité à notre portefeuille de titres et produiraient à long terme des revenus à la fois supérieurs et fiables.

En septembre, nous avons acquis une participation de 50 % dans trois centres commerciaux pour une somme de 180 millions de dollars. Le copropriétaire et gestionnaire immobilier est Cadillac Fairview, un des grands promoteurs au Canada. Ces centres régionaux – Hillcrest Mall à Richmond Hill, Polo Park à Winnipeg et Southland Mall à Regina – présentent

une superficie totale de 157 930 m² (1,7 million de pi²) en locaux commerciaux. Ces immeubles, importants à la diversité géographique de notre portefeuille, rapportent des revenus locatifs élevés et affichent un taux d'occupation de 96 % en moyenne. La qualité de ces immeubles et leur position sur le marché nous portent à croire que nous pouvons compter sur l'accroissement à long terme des revenus et du capital.

La récession a multiplié les occasions d'acquisition de titres de participation dans les biens immobiliers de qualité. Nous envisageons d'acheter des titres dans plusieurs propriétés productives de revenus, dont les propriétaires-gestionnaires sont des promoteurs importants et bien établis. Nous visons la création d'un portefeuille diversifié tant au point de vue de leur situation que de leur affectation. Nous nous intéressons particulièrement aux centres commerciaux régionaux occupant une place prédominante dans leur secteur de vente, aux immeubles de bureaux de classe A du centre-ville des grandes agglomérations canadiennes, ainsi qu'aux groupes d'immeubles industriels situés dans des parcs commerciaux bien établis.

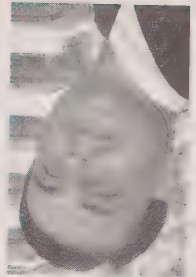
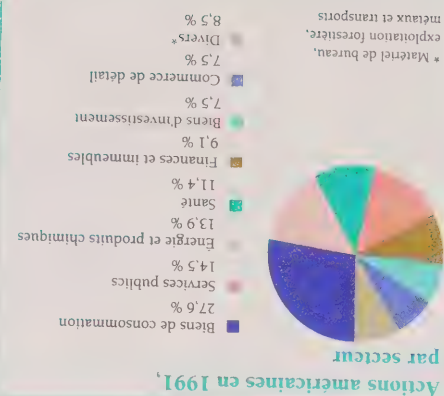
En suivant cette stratégie, nous ferons du régime de retraite un important investisseur immobilier au Canada. La valeur de ce portefeuille pourrait excéder 5 milliards de dollars dans 10 ans, ce qui représenterait alors moins de 10 % du total de l'actif.



Pour la plupart des opérations portant sur les actions canadiennes en 1991, nous avons fait appel aux services de trois gestionnaires externes pour les portefeuilles relictant l'indice des 300 de la Bourse de Toronto. Nous avons commencé nous-mêmes à constituer un autre portefeuille-actions en choisissant les compagnies qui, à notre avis, étaient sous-évaluées. Ce dernier portefeuille avait une valeur du marché de plus de 600 millions de dollars en fin d'exercice ; notre objectif est de surclasser le rendement des compagnies que regroupe l'indice des 300 de la BT.

PLACEMENTS EN ACTIONS AMÉRICAINES

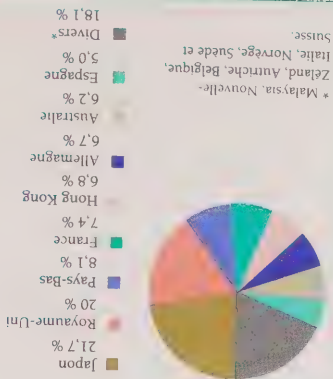
La valeur du portefeuille-actions américain s'est accrue de 373 millions de dollars pour atteindre 1,2 milliard à la fin de l'exercice. L'acquisition de ces placements, effectués en 1990 pour la plupart et devant relictier l'indice des 500 de S&P, a été confiée à un gestionnaire externe. Ce portefeuille, tenant compte du caractère différent de l'économie américaine, se compose à 28 % d'actions dans le secteur des produits de grande consommation, à 15 % dans les services publics, à 14 % dans le secteur de l'énergie et des produits chimiques, et à 11 % dans celui de la santé.



DROITS DE VOTE

Les placements boursiers donnent au conseil de retraite une voix délibérative dans plus de 300 sociétés canadiennes, 500 sociétés américaines et 150 autres ailleurs dans le monde. Pour nous, ces droits de vote sont une responsabilité fiduciaire et doivent être exercés judicieusement pour élire des administrateurs capables de penser et d'agir indépendamment de la direction de leur société.

Actions autres que nord-américaines, par pays



permettent de profiter des différents cycles de croissance économique de ces autres pays.

● **Biens immobiliers productifs de revenus**

L'immobilier est un secteur qui offre à long terme un rendement supérieur. Normalement, les revenus de location comptent pour 70 % du rendement global, et l'accroissement du capital, pour 30 %. Mais la liquidité de l'immobilier est restreinte comparativement aux actions et aux obligations. Le cycle économique actuel a amélioré le choix de placements dans des biens immobiliers productifs de revenus.

● **Placements privés**

Nous avons aussi commencé à investir dans des sociétés privées qui présentent un bon potentiel de croissance à un risque raisonnable. Nous envisagerons également d'investir dans des exploitations de richesses naturelles et dans d'autres entreprises offrant, à un risque limité, de bonnes possibilités de croissance à long terme.

● **Obligations et hypothèques**

Les placements à revenu fixe sont moins instables que ceux en actions et donnent des rendements à long terme plus faciles à prévoir. Ces placements, qui ne constituent qu'une petite partie de notre portefeuille, comprennent des obligations fédérales et provinciales, ainsi que des placements hypothécaires liés au taux d'inflation.

● **Placements sur le marché monétaire**

Nos rentrées et nos sorties de fonds sont considérables au cours d'une année. Pendant que nous négocions des placements à long terme, l'excédent de l'encaisse est placé en effets à court terme, tels que les bons du Trésor et les dépôts bancaires. Ces placements nous assurent les liquidités nécessaires pour faire face à nos obligations courantes.

Nous avons réalisé des opérations dans toutes les catégories de placements prévues dans notre stratégie. Nous avons privilégié l'acquisition d'actions, notam-

ment par l'expansion de notre portefeuille d'actions canadiennes et par notre entrée sur les marchés internationaux, nous avons également effectué nos premiers placements dans l'immobilier au Canada et dans des entreprises privées en pleine croissance. Suite à ces opérations, les actions comptaient pour environ 18 % du total des placements à la fin de l'exercice, par rapport à un peu moins de 7 % un an plus tôt.

Quant aux valeurs à revenu fixe, nous avons augmenté notre portefeuille-obligations et sommes entrés sur le marché des hypothèques indexées.

PLACEMENTS EN ACTIONS

CANADIENNES

Notre portefeuille d'actions canadiennes s'est accru de 2,1 milliards de dollars pour passer à 2,6 milliards à la fin de l'exercice, ce qui constitue 11 % du total des placements. Réflectant la nature de l'économie canadienne, ces actions se répartissent comme suit :

25 % dans le secteur des richesses naturelles, comprenant des entreprises minières, papetières et forestières ; 20 % dans les pipelines et les services publics ; 18 % dans des sociétés de services financiers, et environ 10 % dans le secteur des produits industriels. Les produits de grande consommation, la distribution, les sociétés de gestion, les médias et communications, les transports, l'immobilier et la construction comptent pour le reste des placements.

POLITIQUE GÉNÉRALE DE PLACEMENT

Le conseil de retraite gère les placements du régime

en vue du meilleur rendement possible, en ne prenant

toutefois que des risques modérés. Les rentes des

enseignants sont revalorisées en fonction de l'indice

des prix à la consommation, sous réserve d'un maxi-

mun annuel de 8 %, tout excédent étant reporté.

Notre but est d'obtenir des résultats suffisamment

supérieurs au taux d'inflation pour couvrir le coût de

ces prestations indexées.

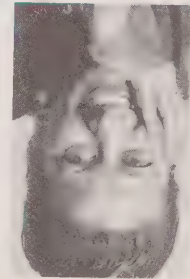
Notre objectif à long terme est un taux de rendement

annuel réel de 4,5 % sur une moyenne mobile cal-

culée sur quatre ans. Nous prévoyons que ce but sera

réalisé dès que notre portefeuille aura la diversifica-

tion recherchée.



Notre but est d'obtenir des résultats suffisamment

supérieurs au taux d'inflation pour couvrir le coût

STRATÉGIE DE PLACEMENT

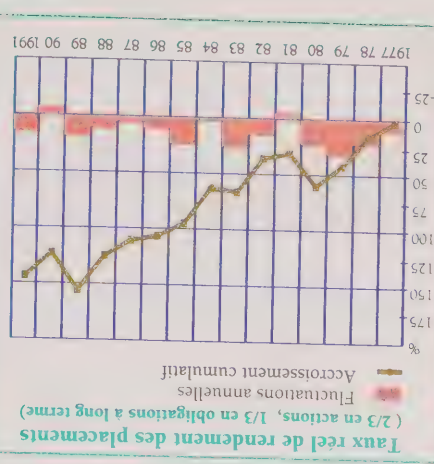
A LONG TERME

Nous composons actuellement un portefeuille de

placements offrant différents degrés de risque. La

répartition visée à long terme est d'au moins les deux

tiers en actions et le tiers en valeurs à revenu fixe.



Taux réel de rendement des placements
(2/3 en actions, 1/3 en obligations à long terme)

Fluctuations annuelles
Accroissement cumulé

• Actions autres que nord-américaines

liquidité à l'achat et la vente d'actions.

Le risque des placements en actions est réparti
davantage par l'acquisition d'actions de sociétés
hors de l'Amérique du Nord. Ces placements nous

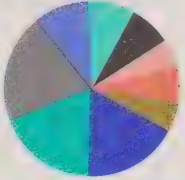
• Actions américaines

nos objectifs à long terme.

cycles économiques, ce qui est compatible avec
ment de dividendes et une plus-value sur de longs
actions de grandes sociétés apportent un accroisse-
produire des résultats négatifs. Toutefois, les
terme et ils peuvent, au cours d'une seule année,
tion. Les marchés boursiers sont instables à court
diennes que prévoit notre stratégie de diversifica-
pour constituer le vaste portefeuille d'actions cana-
faible taille de ce marché, il nous faudra du temps
viron 173 milliards de dollars. Étant donné la
l'indice des 300 de la Bourse de Toronto est dé-
sociétés. La capitalisation des compagnies formant
qu'en constituant un portefeuille d'actions d'autres
des actions reflétant son indice des 300, de même
sité canadien en achetant à la Bourse de Toronto
Nous jouerons un grand rôle sur le marché bour-

• Actions canadiennes

Actions canadiennes en 1991, par secteur

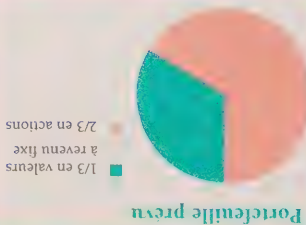


- Pipelines et services publics 19,7 %
- Services financiers 18,4 %
- Produits industriels 9,6 %
- Métaux et minéraux 8,5 %
- Pétrole et gaz 7,7 %
- Produits de consommation 7,5 %
- Or et argent 6 %
- Distribution 5,6 %
- Divers* 17 %
- * Communications, sociétés de portefeuille, transports, papiers et produits forestiers, immobilier et construction

Le conseil de retraite s'est engagé à tenir les participants au régime, les corépondants, les employeurs et le monde des affaires au courant de ses activités et du rendement de ses placements. Sous ce rapport, le conseil de retraite a décidé de suivre les normes de présentation des sociétés ouvertes. Le présent chapitre du rapport annuel fournit des renseignements financiers de manière à aider les intéressés à juger notre rendement du point de vue de la direction.

Placements au 31 décembre 1991
(en millions de dollars)

Valeur du Prix marché coté	
Débitures de la province de l'Ontario	18 190 15 944
Titres du marché monétaire	569 569
Actions étrangères	1 796 1 504
Actions canadiennes	2 618 2 537
Obligations canadiennes	601 584
Placements immobiliers	180 180
Hypothèques	16 16
	23 970 21 334



A
la direction
analyse par



FRAIS D'ADMINISTRATION

Les frais d'administration du conseil de retraite sont passés de 20,3 millions de dollars en 1990 à 25,4 millions en 1991. La majeure partie de l'augmentation est imputable à trois catégories de dépenses.

- Les salaires et les charges sociales ont augmenté de 2,2 millions de dollars, par suite de l'engagement de spécialistes du placement et de cadres supérieurs.
- Les honoraires de gestion des placements ont augmenté de 1,3 million de dollars par suite de l'acquisition d'actions et d'autres éléments d'actif pour diversifier le portefeuille. Ces charges sont appelées à s'accroître avec l'expansion des opérations de placement.
- Les honoraires de garde des valeurs et de consultation ont augmenté de 435 000 \$ et de 529 000 \$ respectivement, la aussi en conséquence directe du programme de diversification.

La hausse d'autres frais est imputable à la demande accrue de services de la part des participants dans toute la province.

Un de nos objectifs pour 1992 est une plus grande productivité, afin que nos frais d'exploitation soient comparables à ceux d'autres fournisseurs de services financiers. Nous sommes à élaborer des points de référence, tels que le coût par participant, pour les frais administratifs, et le rapport des frais de placement aux valeurs des éléments d'actif. Ces moyens de mesure seront utiles au contrôle du rendement.

Frais d'administration (en milliers de dollars)		1991	1990
Salaires et charges sociales	13 720	11 506	
Locaux et matériel	4 293	3 794	
Services de consultation	2 505	1 976	
Communications et déplacements	1 873	1 785	
Honoraires de gestion	1 323	55	
des placements			
Frais de garde et de banque	747	312	
Papeterie et fournitures	537	564	
Rémunération des membres du conseil et des comités	146	148	
Honoraires de vérification	136	82	
Publications et droits réglementaires	63	41	
Frais divers	58	40	
	25 401	20 303	

PERSPECTIVES

Ce ne sera que dans trois ou quatre ans que la répartition de notre portefeuille atteindra le minimum visé, soit les deux tiers en actions et le tiers en valeurs à revenu fixe, surtout parce qu'il faudra du temps pour acquérir assez d'actions et diminuer l'importance du portefeuille-débentures. Toutefois, nous sommes bien organisés pour poursuivre la diversification d'une manière ordonnée et planifiée et obtenir à long terme des taux de rendement acceptables.

Nous remercions les enseignantes et les enseignants de la patience dont ils font preuve pendant cette période de transition. Les changements que nous continuons d'apporter à l'organisation ont pour but l'amélioration des services aux participants. Nous nous sommes fixé des buts et des objectifs pour 1992, entre autres, des points de référence pour évaluer le rendement des placements et celui des services à la clientèle. La qualité de ces services prend pour nous une importance primordiale.

Le président et chef de la direction,

Claude Lamoureux

Le 10 mars 1992

C. Lamoureux

Un de nos objectifs pour 1992 est une plus grande productivité, afin que nos frais d'exploitation

enseignant. Nous avons aussi commencé une revue des règles de calcul des rentes. Nous terminerons cette tâche en 1992 et apporterons les ajustements voulus.

Actuellement, nous traitons avec 284 employeurs qui sont surtout des conseils scolaires, mais aussi des écoles et des organismes privés. Ces employeurs vont du Conseil des écoles catholiques du Grand Toronto comptant 8000 enseignants à son service, à une école n'ayant qu'un seul enseignant. Aux fins d'améliorer l'administration du régime de retraite, notre personnel a visité plusieurs employeurs au cours de l'année pour discuter avec eux de la qualité des données transmises. Parmi les résultats de ces discussions, mentionnons la simplification de la formule de calcul des cotisations salariales et gouvernementales.

Nous sommes satisfaits des progrès qui sont réalisés vers la concordance des dossiers des employeurs avec les nôtres. À la fin de 1992, le rapprochement des données accumulées depuis 1984 devrait être achevé. Nous remercions les employeurs de leur coopération à cette tâche.

Une autre initiative a été l'expansion de nos services. Apparaissant, les entrevues n'avaient lieu que sur rendez-vous. Cette année, nous avons prolongé les heures d'ouverture, maintenant de 8 à 17 h 30, et commencé à accepter les personnes qui se présentaient sans rendez-vous, ce qui a contribué à une augmentation de 150 % des entrevues au siège social.

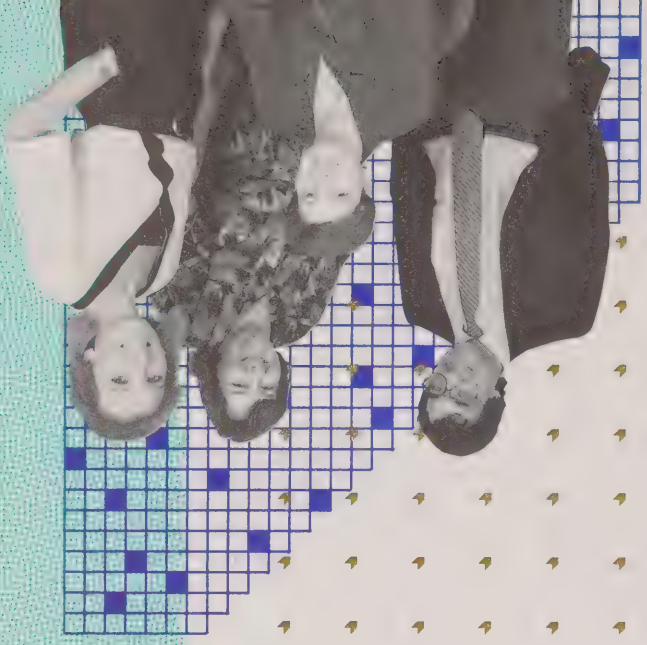
Il y a lieu de mentionner aussi l'intégration des relevés prospectifs de rente aux relevés annuels des droits des participants de 50 ans et plus. De plus, nous avons réussi à envoyer les T4 aux retraités deux mois avant la date limite de février ; ces feuillets accompagnaient notre lettre les informant du montant de leurs prestations pour 1992 en raison de l'indexation.

Nous n'avons pas ménagé nos efforts pour améliorer la qualité et la personnalisation de nos services

Environ 45 % des enseignants se situent dans le groupe d'âge de 40 à 49 ans. Comme l'âge moyen de la retraite est 58 ans, ces clients approchent de l'époque où il est important de s'informer sur les droits à retraite. Nous leur fournissons les renseignements qui leur faciliteront les décisions à prendre.

Le nombre des retraités a peu augmenté l'année dernière, passant à 39 700, y compris les 1930 enseignants qui ont pris leur retraite en 1991, comparé à 2470 l'année précédente. Selon nos prévisions, il y aura environ 2200 demandes de rente en 1992. L'âge moyen des retraités est de 69 ans, et la rente moyenne est de 21 100 \$ par année.

Nous sommes loin d'avoir terminé nos efforts pour améliorer les services à la clientèle. Il reste beaucoup à faire, par exemple, quant à l'exactitude de notre base de données. En 1991, nous nous sommes concentrés sur la concordance des dossiers administratifs, afin d'assurer l'uniformité des renseignements sur chaque



Nous sommes heureux de l'évolution de nos placements, tant au point de vue de la diversification que du rendement, au cours des deux premières années de notre nouveau mandat.



De plus, nous avons formé notre propre équipe de spécialistes pour créer et gérer un portefeuille-actions actif. Plus de 600 millions de dollars étaient investis dans ce portefeuille canadien.

Nos efforts de diversification ont aussi produit nos premiers investissements immobiliers, pour un total de 180 millions de dollars, soit une participation de 50 % dans trois grands centres commerciaux, lesquels dominent le commerce du détail à Richmond Hill, Winnipeg et Regina. Nous envisageons une forte croissance du portefeuille de valeurs immobilières en 1992, avec l'acquisition de titres de participation dans d'autres centres commerciaux, ainsi que dans des immeubles de bureaux et des propriétés industrielles.

Nous avons aussi lancé un programme de placements privés en 1991. Il s'agit de placements dans des entreprises commerciales privées de moindre importance mais qui offrent de bonnes perspectives de croissance. Plus de 100 millions de dollars ont ainsi été engagés dans sept entreprises pendant l'exercice.

À cours de 1991, nous avons acquis un portefeuille d'obligations négociables dont la valeur s'établissait à 601 millions de dollars à la fin de l'exercice. Ce portefeuille constitue 2,5 % du total des placements. Les valeurs à court terme ont baissé à 569 millions de dollars, soit à 2,4 % du total des placements, alors qu'elles se situaient à 1,4 milliard de dollars il y a un an, par suite de leur conversion en placements à long terme dans d'autres secteurs.

À tout prendre, le rendement global du portefeuille a été exceptionnel l'an dernier, atteignant 19,6 % comparé au taux de 5,6 % enregistré un an plus tôt. Un

SERVICES À LA CLIENTÈLE

Nous n'avons pas ménagé nos efforts pour améliorer la qualité et la personnalisation de nos services à la clientèle. Au cours de l'année, nous avons mis en place une politique selon laquelle chaque enseignant, actuel ou retraité, ne fait affaire qu'avec une seule personne pour obtenir des renseignements ou des services. Cette politique a eu pour effet d'augmenter considérablement les communications entre le personnel et les participants et, en particulier, la réponse des enseignants au programme de rachat de cotisations qui a pris fin en 1991. Nous avons reçu jusqu'à 23 000 appels téléphoniques par mois et en avons fait de 12 000 à 14 000.

Le programme de rachat de cotisations permet aux enseignants d'acquiescer des droits à retraite à un coût de beaucoup inférieur au coût réel pour le régime. Nous avons lancé une campagne d'information auprès des enseignants sur cette possibilité de rachat. Les plus de 30 000 demandes qui nous sont parvenues ont entraîné un arrêt de travail, que nous prévoyons éliminer d'ici le milieu de 1992.

Diverses initiatives nous ont permis de joindre les enseignants. Entre autres, nous avons participé aux ateliers régionaux sur la planification de la retraite, organisés par la Fédération des enseignantes et des enseignants de l'Ontario. Lors des 11 ateliers tenus en 1991, nos représentants ont accordé environ 1500 entrevues particulières.

ÉVOLUTION DES PLACEMENTS

Nous sommes heureux de l'évolution de nos placements, tant au point de vue de la diversification que du rendement, au cours des deux premières années de notre nouveau mandat.

Au début de 1990, notre portefeuille s'élevait à 18 milliards de dollars et se composait presque uniquement de débiteurs de la province. Celles-ci constituaient 85 % de nos placements de 19,5 milliards de dollars à la fin de l'exercice 1990. Les placements ont atteint 24 milliards de dollars à la fin de 1991 mais, en dépit de nos efforts de diversification, les débiteurs en représentaient encore 76 % du fait de l'augmentation de 1,8 milliard de la valeur du marché attribuable à la baisse des taux d'intérêt.

Les actions formaient 18 % de l'ensemble des placements, et des sommes considérables ont été engagées dans leur acquisition au cours d'une courte période. À la fin de 1991, les placements en actions de sociétés canadiennes, américaines et autres que nord-américaines atteignaient 4,4 milliards de dollars.

Ce portefeuille d'actions compte parmi les plus importants au Canada. Nous avons confié à huit gestionnaires externes l'acquisition d'actions reflétant l'indice des 300 de la Bourse de Toronto et l'indice des 500 Standard & Poor de la Bourse de New York, ainsi que des actions de compagnies en Europe et dans les pays du Pacifique. Cette variété d'actions émises dans le public par des sociétés du monde entier répartit les risques, et elle devrait permettre au régime de profiter des avantages qu'offre l'économie de différents pays du globe.

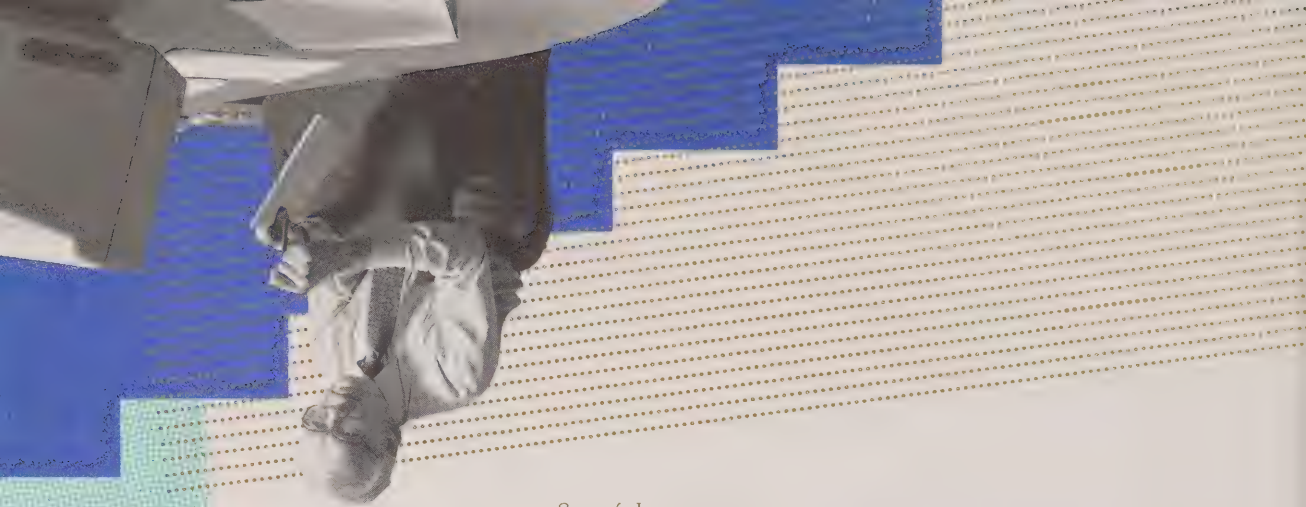
STRATÉGIE DE PLACEMENT

Nous avons élaboré une stratégie à long terme précisant la composition et le rendement visés pour les portefeuilles, par type de placements. L'objectif est d'obtenir, à plus ou moins longue échéance, le maximum de rendement à un niveau modéré de risque. Des principes de placement prudent permettent à la fois de protéger l'actif et d'assurer la fiabilité des revenus.

La stratégie vise un portefeuille privilégiant fortement les actions qui, à long terme, composeront au moins les deux tiers de l'ensemble des placements. Ces valeurs comprennent des actions émises dans le public par des sociétés, des titres de participation dans des entreprises privées et des titres de propriété de biens immobiliers produits de revenus.

Bien que les actions aient tendance à l'instabilité dans le court terme, les marchés étant sujets à des hausses et à des baisses cycliques, elles ont toujours donné des taux de rendement réels (c.-à-d., un taux de rendement au-dessus de l'inflation) plus élevés que les valeurs à revenu fixe. Ces dernières comprennent les placements sur le marché monétaire, les obligations, les hypothèques et titres hypothécaires, et les débiteurs provinciaux.

L'investissement prudent, à plus ou moins longue échéance, le maximum de rendement à un niveau modéré de risque



Notre effectif permanent est réparti entre cinq divisions principales :

- La Division des placements, qui comptait trois employés lors de sa création en 1991. À la fin de l'exercice, ce nombre était passé à 21, comprenant des spécialistes de tous les secteurs de placement que notre mandat nous permet – actions, obligations, effets du marché monétaire, biens immobiliers et placements privés. L'accroissement des opérations et la nature spécialisée de certains composants de notre politique de diversification nécessiteront une adjonction de personnel.

- La Division des services à la clientèle emploie environ 50 % du total de notre effectif. Au cours de 1991, nous avons connu une augmentation marquée du volume de ces services et des communications avec les enseignants et les retraités. Nous visons un plus grand rendement encore en 1992.

- La Division des finances est responsable de la gestion et de l'information financières. Elle est chargée d'implanter des systèmes financiers pour améliorer le rendement aux niveaux de la gestion et de l'exploitation. La division comprend la comptabilité des placements, un service dont l'effectif est passé de un à huit employés au cours de l'année.

- La Division de l'information de gestion est responsable des systèmes informatiques et chargée d'améliorer l'exactitude de la base de données et la rapidité des réponses aux demandes de renseignements de la part de la clientèle.

- La Division de la gestion intégrée et des communications englobe les services des ressources humaines, de soutien juridique, des communications et le service administratif.

Le conseil de retraite utilise ses ressources pour s'acquitter de ses deux missions fondamentales. La première est la diversification du portefeuille de manière à ce que l'actif du régime puisse constituer une base financière solide pour répondre aux besoins de retraite de nos clients. La seconde est d'assurer des services de qualité aux 288 000 participants ; ce nombre englobe les enseignants actifs et les ex-enseignants, ainsi que les retraités.

Nous avons réalisé des progrès en 1991 mais, dans le cas de l'une et l'autre mission, notre tâche est loin d'être terminée.

CHANGEMENTS ORGANISATIONNELS

Nous avons pour objectif de fonctionner comme une société qui doit rendre compte à ses corépondants, le gouvernement provincial et la Fédération des enseignants et des enseignants de l'Ontario, selon les dispositions des lois habilitantes. C'est-à-dire que, tout en pratiquant la gestion prudente des risques qui est exigée dans l'administration des régimes de retraite, nous tentons de suivre des pratiques semblables à celles d'une entreprise du secteur privé.

Pour nous acquitter de nos obligations, nous avons, au cours de 1991, apporté une attention considérable à la mise en place d'une organisation de premier ordre. Nous avons aussi renforcé l'équipe de cadres supérieurs en nommant trois vice-présidents, respectivement aux finances, à l'information de gestion, et à la gestion intégrée et aux communications.

Le personnel permanent est passé de 223 à 233 membres au cours de l'année. En raison d'un important surcroît de travail pendant le dernier tiers de cette période, nous avons dû engager des employés temporaires. Si on y ajoute les heures supplémentaires accomplies par le personnel permanent, ces emplois à court terme équivalaient à 40 emplois à plein temps.

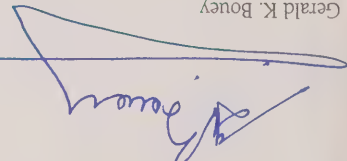


Les membres nommés par la ASO et le gouvernement ont accompli un excellent travail d'équipe au cours des deux dernières années

REMERCIEMENTS

Au nom du conseil d'administration, je désire remercier les membres de notre personnel des progrès qu'ils ont réalisés pour améliorer la qualité des services aux enseignantes et aux enseignants et pour diversifier l'actif du régime de façon responsable et ordonnée.

Le président du conseil d'administration,

Gerald K. Bouey


Le 10 mars 1992

CONSEIL D'ADMINISTRATION

(de gauche à droite)

Edward Medland, ancien chef de la direction de Wood Gundy Inc. Président du Comité des placements.

Gerald K. Bouey, ancien gouverneur de la Banque du Canada. Président du conseil d'administration.

Margaret Wilson, secrétaire-trésorière et ex-présidente de la Fédération des enseignantes et des enseignants de l'Ontario et ancienne enseignante au secondaire.

John H.C. Henry, avocat-conseil chez McCarthy, Tetreault, avocats.

Lynne Sullivan, directrice de William M. Mercer Limitée et chef du service de consultation Mercer sur les droits de la personne et l'équité en matière d'emploi au Canada.

Martin Hicks, conseiller en placement possédant une vaste expérience dans ce domaine au Canada et aux E.-U. et ancien cadre supérieur chez Pru-Bache.

Doug McAndless, ancien enseignant des écoles publiques et ex-président de la Fédération des enseignantes et des enseignants de l'Ontario. Président du Comité de vérification et d'actuarial.

Gail Cook Bennett, vice-présidente directrice de Bennecon Ltd., ex-professeure d'économie politique à l'Université de Toronto et cadre supérieure à l'Institut de recherches C.D. Howe.

Duncan Green, ex-directeur de l'enseignement au Conseil scolaire de Toronto, et ancien sous-ministre adjoint au ministère de l'Éducation. Président du Comité d'appel.



CONSEIL D'ADMINISTRATION

Le partenariat apporte une représentation égale au sein du conseil d'administration. Les deux parties désignent maintenant quatre administrateurs chacune et nomment conjointement le président ou la présidente. Le mandat des administrateurs est de deux ans, sous réserve d'un maximum de quatre mandats consécutifs.

Que les deux parties m'aient demandé d'assumer

encore la présidence est pour moi un grand honneur. Je suis également heureux de la présence au conseil d'administration des membres actuels, quatre

désignés par le ministère de l'Éducation et trois par la FEO. Cette continuité au niveau des compétences et de l'expérience est précieuse pendant une période de transition. Les membres nommés par la FEO et le

gouvernement ont accompli un excellent travail d'équipe au cours des deux dernières années.

Le quatrième administrateur désigné par la FEO est M. Martin Hicks, conseiller en placement possédant une vaste expérience du secteur des valeurs mobilières au Canada et aux États-Unis. Comme M. Hicks

est membre de notre Comité des placements depuis deux ans, la stratégie et les opérations du conseil de retraite lui sont familières.

Monsieur Gary Porter, comptable général licencié et ex-directeur des placements et des fiducies auprès d'une importante société de fiducie, continue de faire partie du Comité des placements.

Les deux parties ont convenu de mettre en œuvre des moyens de mesurer leur rendement respectif.

Tous les administrateurs siègent à ce comité, qui s'est acquitté d'une grande tâche en 1991 : l'élaboration d'une stratégie à long terme comportant des objectifs de composition des portefeuilles et des

placements dont la valeur dépasse le montant fixé. Les directives de placement, et approuve les placements relatives à la composition du portefeuille et les

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COMITÉS DU CONSEIL D'ADMINISTRATION

Le conseil d'administration comprend les trois comités suivants :

Le Comité d'appel entend les appels des décisions de la direction en matière des droits à retraite. En 1991, le comité a entendu 14 appels.

Le Comité de vérification et d'actuarial veille à l'intégrité financière du régime en contrôlant le travail des vérificateurs internes et externes. Il doit aussi s'assurer que les engagements du régime fassent l'objet d'une évaluation indépendante tous les trois ans.

Le Comité des placements établit la politique relative à la composition du portefeuille et les placements dont la valeur dépasse le montant fixé.

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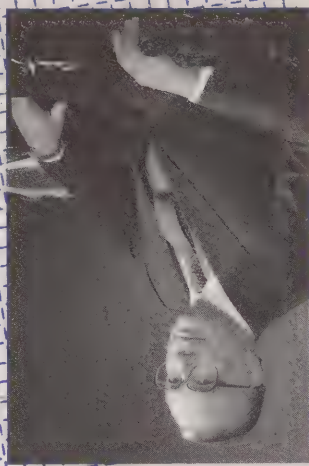
La dernière étape avec le gouvernement a été franchie en août 1991.

ENTENTE DE PARTENARIAT

Les enseignants et le gouvernement étant corépondants, ils se partageront finalement à parts égales tout excédent ou tout déficit actuariel éventuels. Ces gains ou pertes feront l'objet d'une évaluation indépendante au moins tous les trois ans.

Le partage égal de la responsabilité financière se fera progressivement. La part directe du gouvernement des gains et des pertes est demeurée à 100 % jusqu'à la fin de 1991. Elle diminuera à 80 % en 1992 et à 70 % de 1994 à 1996, pour se situer à 50 % en 1997.

L'entente de partenariat prévoit un processus formel de négociations triennales sur les modifications du régime, telles que le niveau des prestations et les taux de cotisation. Tout désaccord sera soumis à l'arbitrage, mais, pour ce qui est du taux de cotisation, l'arbitre ne pourra intervenir en faveur d'une majoration supérieure à 0,5 %.



Le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario entreprend une nouvelle étape de son histoire. Selon l'entente de partenariat

passée entre le gouvernement provincial et la Fédération des enseignantes et des enseignants de l'Ontario (FEO), ces deux organismes sont maintenant corépondants du régime.

De 1917 à 1989, le régime et son administration étaient, sous plusieurs rapports, des prolongements du gouvernement. De plus, la loi limitait tous les placements du régime aux dépenses de la province, non négociables et inessibles.

Le 1^{er} janvier 1990, une nouvelle loi crée le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario, dont les deux grands objectifs sont l'amélioration de la qualité des services aux enseignantes et aux enseignants et la diversification des placements du régime. La poursuite de ces objectifs a exigé de la part de l'organisme, devenu gestionnaire de portefeuille aussi bien qu'administrateur du régime, un dynamisme renouvelé.

Le régime ayant été jusqu'alors dans une situation de dépendance vis-à-vis du gouvernement, les modifications marquaient une évolution vers la capitalisation autonome. Ici, le gouvernement, en tant que premier répondant du régime, est tenu de combler le déficit actuariel accumulé jusqu'au 31 décembre 1991.

La dernière étape vers des rapports sans lien de dépendance avec le gouvernement a été franchie en août 1991, les délibérations entre le ministre de l'Éducation et la FEO ayant abouti à une entente de partenariat. Aux termes de cette entente, qui a pris effet le 1^{er} janvier 1992, le personnel enseignant devient cogestionnaire de la caisse de retraite et partage la responsabilité financière du régime.

(en millions de dollars) 1991 1990
% Augmentation (Diminution)

Provenance des revenus			
Revenus de placement	3 843	272,4	1 032
Cotisations des participants	651	16,5	559
Cotisations de la province	663	12,9	587
Versements de la province au titre des engagements non capitalisés	270	44,4	187
Total des revenus	5 427	129,5	2 365
Affectation des revenus			
Prestations, remboursements et transferts	829	8,9	761
Frais d'administration	25	25,0	20
Total des charges	854	9,3	781
Augmentation de l'actif net avant augmentation du coût des prestations futures et variation de la valeur du marché			
Augmentation du coût des prestations futures	4 573	188,7	1 584
Variation de la valeur du marché	3 088	24,6	2 479
Augmentation du déficit	107	—	709
Total	(1 592)	—	186

SITUATION À LA FIN DE L'EXERCICE

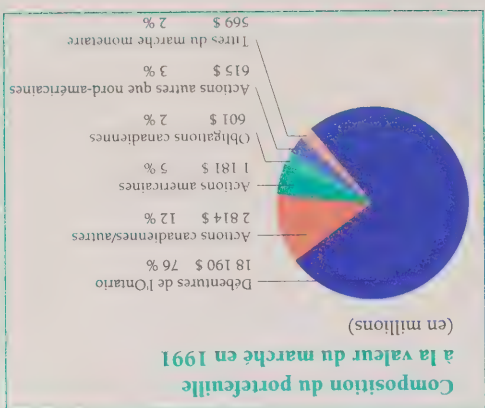
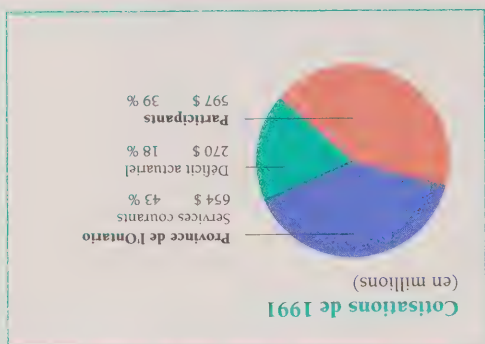
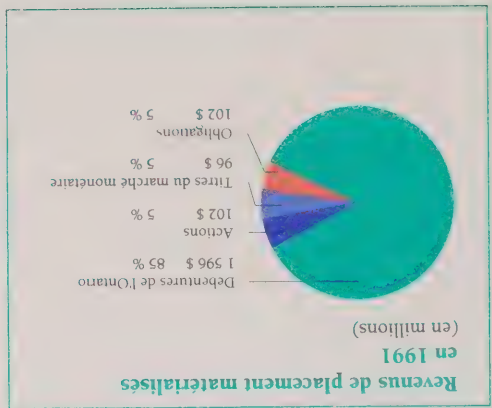
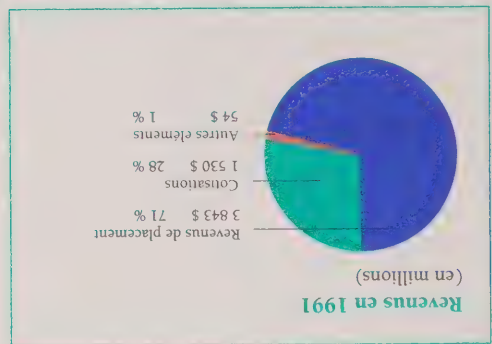
(à la valeur du marché)

PlACEMENT DES FONDS			
Débentures de la province ⁽¹⁾	18 190	10,6	16 450
Autres valeurs à revenu fixe	1 186	(29,4)	1 680
Actions	4 414	232,9	1 326
Biens immobiliers	180	—	—
Cotisations à recevoir	1 190	25,9	945
Autres éléments d'actif et de passif	(463)	67,1	(277)
Total des fonds investis	24 697	22,7	20 124
Ajustements pour mitiger les fluctuations des valeurs du marché ⁽²⁾	(883)	—	709
Total des fonds disponibles	23 814	14,3	20 833
Affectation future des fonds			
Coût estimatif des prestations futures	27 479	12,7	24 391
Déficit	3 665	3,0	3 558

(1) L'augmentation des débentures de la province est uniquement attribuable à celle de la valeur du marché.
(2) Aux fins de l'évaluation des éléments de passif, les gains et les pertes matérialisés et non matérialisés sont répartis sur cinq ans.

(en millions de dollars) 1991

Débitures de la province de l'Ontario	18 190
Actions	4 414
Valeurs à revenu fixe	1 186
Biens immobiliers	180
Somme à recevoir de la province de l'Ontario	23 970
Autres éléments d'actif et de passif	(463)
Ajustement aux valeurs du marché pour mitiger les fluctuations	24 697
Total de l'actif	23 814
Coût estimatif des prestations	27 479
Déficit	3 665



Le Conseil du régime de retraite des enseignantes et des enseignants de l'Ontario est une société fondée en 1990 par la province de l'Ontario. Le conseil de retraite administre le régime à prestations déterminées, qui prévoit l'indexation des droits à retraite et des rentes, pour le compte de 160 000 enseignants de la province aux niveaux élémentaire et secondaire, de 88 000 ex-enseignants et de 40 000 retraités. Le conseil de retraite assure aussi la gestion de l'actif du régime, qui dépassait les 24 milliards de dollars à la fin de 1991. Par l'importance de son actif, le régime se classe parmi les plus grands établissements financiers du Canada.

Depuis l'établissement du régime en 1917, ses placements étaient restreints aux débiteurs non négociables de l'Ontario. Le conseil de retraite a reçu en 1990 le droit de diversifier les placements pour contribuer, à long terme, à la capitalisation entière du régime. Le portefeuille se compose maintenant d'actions émises dans le public par des sociétés, de titres de participation dans des entreprises privées, de titres de propriété de biens immobiliers productifs de revenus, ainsi que de placements sur le marché monétaire, d'obligations gouvernementales, et d'hypothèques indexées.

Le gouvernement provincial et la Fédération des enseignantes et des enseignants de l'Ontario sont les correspondants du régime de retraite. Le conseil d'administration est formé de neuf membres ; le ministère de l'Éducation et la FEO en désigne quatre chacun, et les deux organismes nomment conjointement le président ou la présidente.

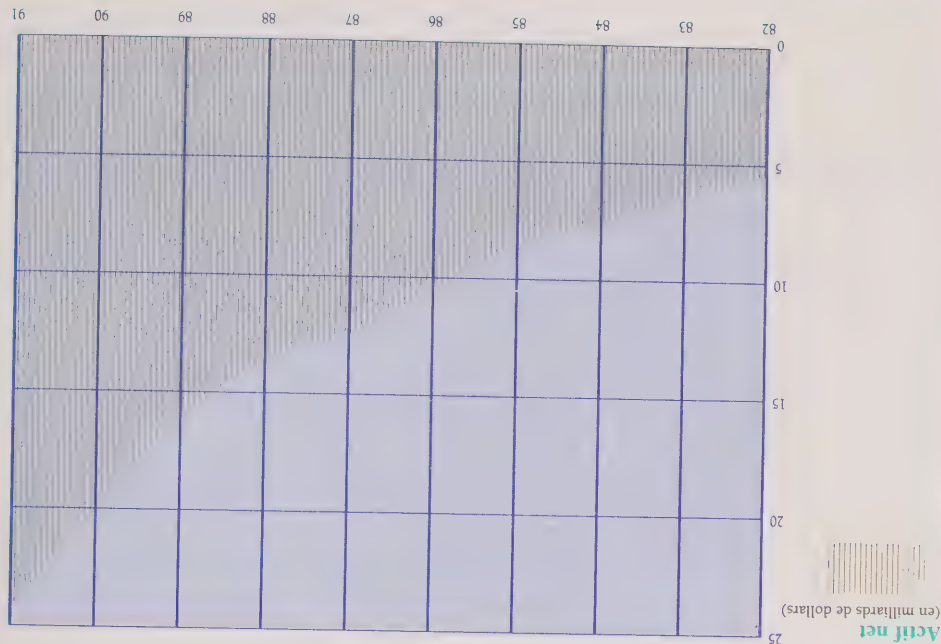




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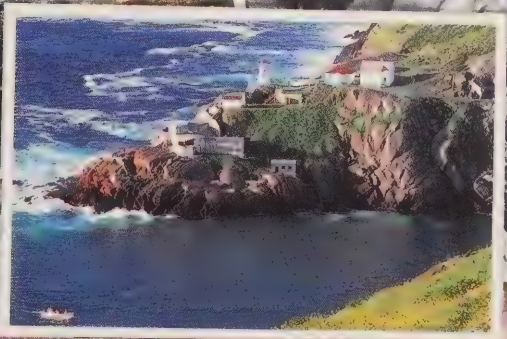
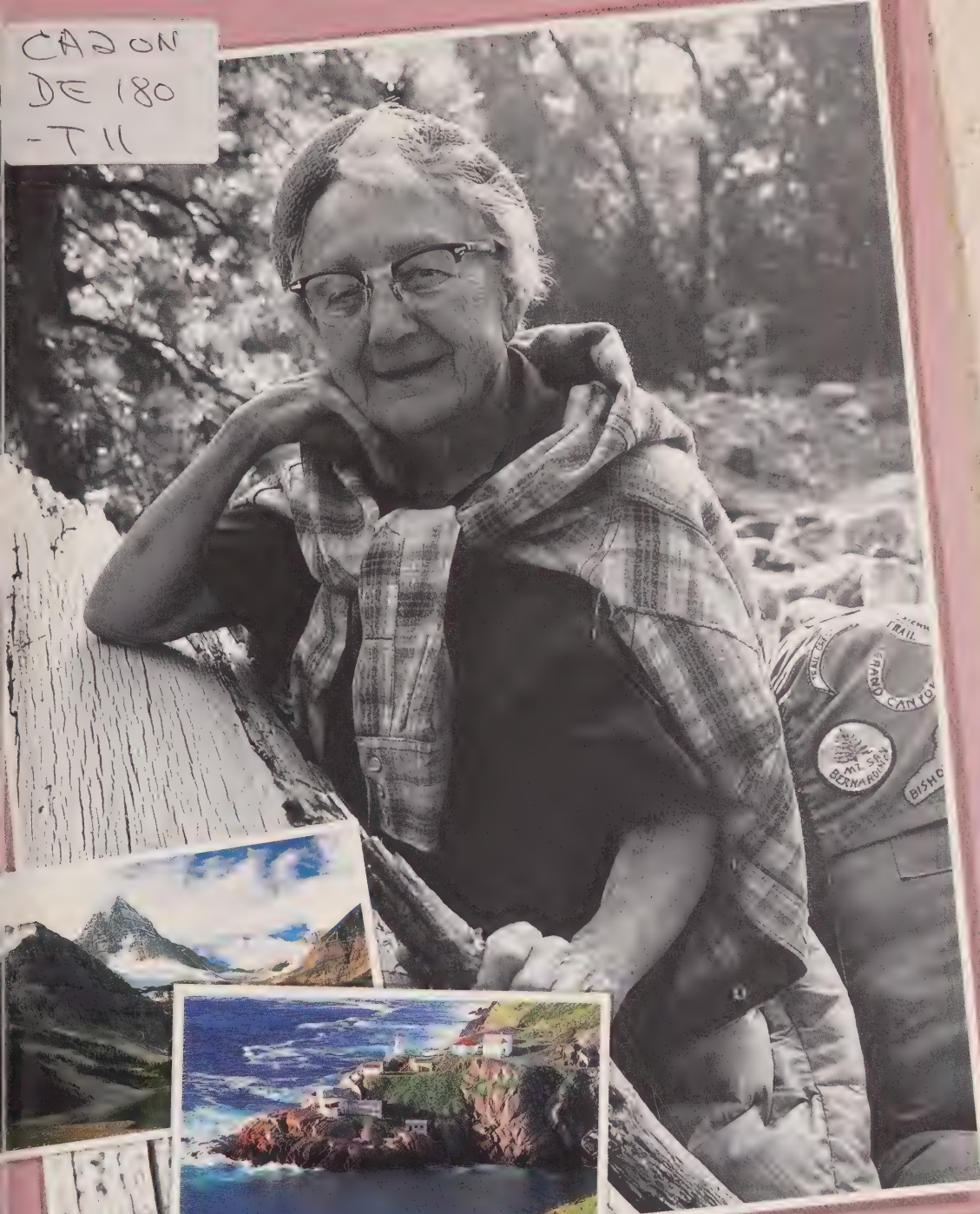
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Realize your Retirement Dreams



Teachers'
Pension Plan
Board

Annual
Report
1992



CORPORATE MISSION

*Teachers can rely on the
Ontario Teachers' Pension Plan Board
to provide the financial base
and pension benefits knowledge
around which to plan their retired lives.*

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PROFILE

The Ontario Teachers' Pension Plan Board is an independent corporation established in 1990 by provincial statute. It administers the defined benefit pension plan of the province's teachers and provides them with personalized client services. The pension board also manages the plan's contributions and investments with the objective of producing sufficient investment returns to provide plan members and their families with retirement income, indexed to inflation. The plan's membership consists of 160,000 elementary and secondary school teachers, 88,000 former teachers, and 41,000 retired teachers.

Originally created in 1917, the teachers' pension plan was restricted to investing in non-marketable Ontario debentures until 1990, when legislation empowered it to diversify investments to help make the plan fully funded over the long term. Today, the plan's assets include equities, mainly shares of corporations, and fixed-income securities, principally government debentures. With total assets exceeding \$27 billion, the teachers' pension plan is the largest invested pension plan in Canada, and ranks among the nation's largest financial institutions.

The plan is co-sponsored by the Ontario government and the Ontario Teachers' Federation. These partners appoint four members each to the pension plan's board of directors and jointly select the chairperson.



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FINANCIAL HIGHLIGHTS

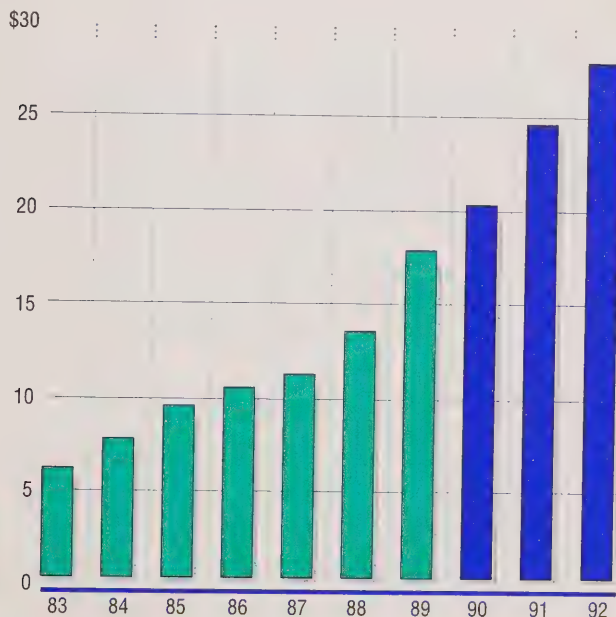
(\$ millions) as of December 31

FINANCIAL POSITION

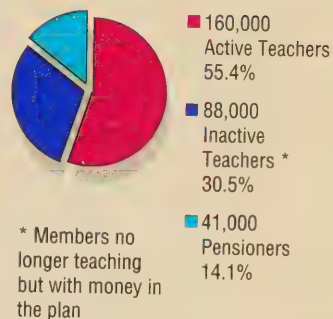
	1992	1991
Assets	27,359	23,814
Province of Ontario		
debentures	17,863	18,030
Money market securities	1,244	569
Bonds and mortgages	1,042	616
Equity investments	5,785	4,414
Real estate	451	180
Accrued pension benefits	30,781	27,479
Deficiency	3,422	3,665
Rate of Return	8.9%	19.6%

NET ASSETS

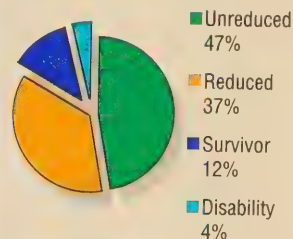
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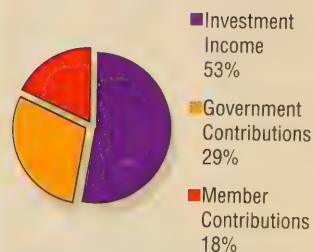
Membership Profile



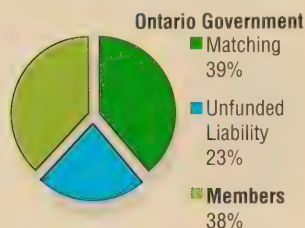
Types of Pensions



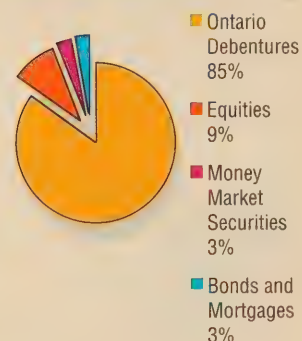
1992 Revenue



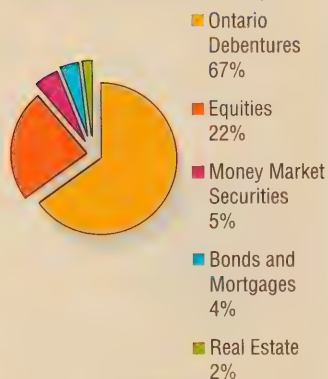
1992 Contributions



1992 Investment Income



1992 Asset Mix at Market Value

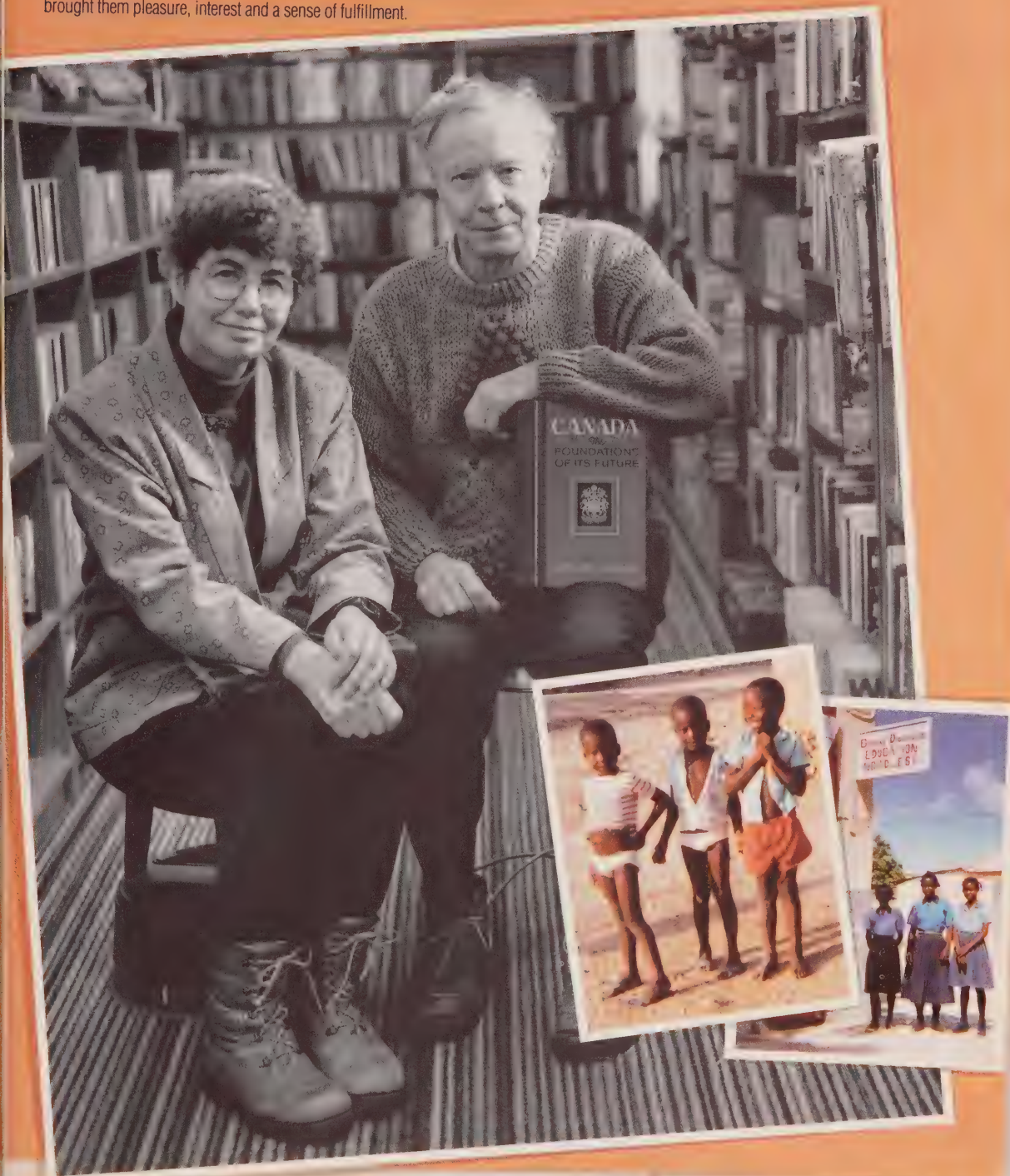


SUMMARY FINANCIAL STATEMENTS

(\$ millions) as of December 31	1992	1991
ACTIVITY DURING THE YEAR		
Investment operations		
Investment income	2,145	3,843
Investment expenses	(14)	(5)
	2,131	3,838
Client service operations		
Contributions	1,889	1,584
Benefits paid	(921)	(829)
Client service expenses	(23)	(20)
	945	735
Increase in assets	3,076	4,573
Increase in cost of future pension benefits	(3,302)	(3,088)
Change in market value adjustment	469	(1,592)
Decrease (increase) in deficiency	243	(107)
FINANCIAL POSITION AT YEAR END		
Where assets are invested		
Provincial debentures	17,863	18,030
Money market securities, bonds and mortgages	2,286	1,185
Equities	5,785	4,414
Real estate	451	180
Contributions receivable	1,323	1,190
Other assets and liabilities	65	(302)
	27,773	24,697
Adjustment to smooth market value fluctuations	(414)	(883)
	27,359	23,814
Future use of assets		
Pension benefits	30,781	27,479
Deficiency	3,422	3,665

Open a Charity Bookstore

Bernie and Patricia Crawshaw opened Fernlea IVIX Non-Profit Books in Delhi, Ontario. By selling books donated to their store and sending the money to help the education of underprivileged children in Haiti, retirement has brought them pleasure, interest and a sense of fulfillment.



Gerald K. Bouey*Chairperson*

What we have today as a result of this history is a three-year-old corporation with a 75-year heritage.

In 1992 the Ontario teachers' pension plan marked its 75th anniversary. For its first 72 years, the plan was managed as an agency of government and invested solely in non-marketable Ontario debentures.

In 1975, the Ontario government linked public sector pensions to the Consumer Price Index, although these indexed benefits were not fully funded. In the late 1980s, the government recognized the need to diversify the investments of public-sector plans and move them toward self sufficiency, including the matching of inflation-linked liabilities with suitable long-term market investments.

In 1990, a new corporation was created, the Ontario Teachers' Pension Plan Board, with the mandate to diversify the plan's investments.

Partnership agreement

During the past three years much has changed. The Ontario Teachers' Federation (OTF) is now co-sponsor of the plan with the government under a partnership agreement that became effective on January 1, 1992.

As the original plan sponsor, the government is responsible for the unfunded liability as it stood on January 1, 1990 and for gains or losses until December 31, 1991. Under partnership, plan members and the government will share equally in any gains or losses to be determined by an independent valuation conducted at least every three years. The move to financial equality will be gradual, reaching 50 per cent in 1997.

Governing authorities

The **Partners' Committee**, formed by OTF and the Ontario government in 1992 with each partner appointing three members, is responsible for the design of the pension plan, which includes such matters as the level of benefits for members and their beneficiaries. The

partners appoint four members each to the board of directors, and select the neutral chairperson.

The **Board of Directors** is required by the *Teachers' Pension Act* to “administer the pension plan and manage the pension fund in accordance with this act, the *Pension Benefits Act* and the *Income Tax Act (Canada)*.” Consequently, the directors set policies for the ongoing management of the pension board and ensure legislative compliance. The board has three committees:

- the **Benefits Adjudication Committee**, which hears appeals by plan members concerning management decisions on matters of entitlement;
- the **Audit and Actuarial Committee**, which oversees the internal and external audit of the plan’s operations, as well as independent actuarial valuations of the plan’s funding status; and
- the **Investment Committee**, which sets the plan’s asset mix and investment policies, and monitors performance against external benchmarks.

The **Chief Executive Officer and senior management** of the pension board report to the board of directors. They are responsible for managing the operations of the pension plan in accordance with the policies of the board of directors and relevant legislation.

Process for plan changes

The partnership agreement establishes a formal process for negotiating changes to the plan, such as benefits and contribution rates. The partners can increase benefits or approve changes in the contribution rate. The independent actuary appointed by the board of directors determines the contribution rate based on the plan’s performance and future prospects. The actuary files his report with the Pension Commission of Ontario, a requirement that further protects the financial integrity of the plan. The most recent review of benefits and contribution rates confirmed the 8.9 per cent contribution rate.

The relationship between the partners’ committee and the board is working well. The partners’ committee and board of directors also provide for active participation by both the plan members and government.

The partners’ committee also ensures that gains and losses are shared properly between the partners.

The partners can increase benefits or approve changes in the contribution rate.

Board of Directors

Gerald K. Bouey, former governor of The Bank of Canada. *Chairperson of the Board.*

John H.C. Clarry, counsel with McCarthy, Tétrault, barristers and solicitors.

Gail Cook-Bennett, Executive Vice-President of Bennecon Ltd., former economics professor at the University of Toronto and senior executive with the C.D. Howe Research Institute.

Duncan Green, former Director of Education for the Toronto Board of Education and Assistant Deputy Minister with the Ministry of Education. *Chairperson of the Benefits Adjudication Committee.*

Martin Hicks, investment consultant with extensive experience in the Canadian and U.S. investment industries, and former senior executive at Pru-Bache Securities.

Doug McAndless, former public school teacher and past president of the Ontario Teachers' Federation. *Chairperson of the Audit and Actuarial Committee.*

C. Edward Medland, former Chief Executive Officer of Wood Gundy Inc. *Chairperson of the Investment Committee.*

Lynne Sullivan, principal with William M. Mercer Limited and leader of the Mercer human rights and employment equity consulting practice in Canada.

Margaret Wilson, Secretary-Treasurer of the Ontario Teachers' Federation, past president of the federation and former secondary school teacher.

Appointment of directors

Under the new partnership agreement, each director is eligible for a two-year term to a maximum of four terms. The partners have staggered re-appointment terms to provide the board with membership continuity in the future. In 1992, Martin Hicks was appointed to the board, and Lynne Sullivan and Doug McAndless were reappointed until 1994. At the start of 1993, Duncan Green and Ted Medland were reappointed until 1995. At the end of 1993, Gail Cook-Bennett, Martin Hicks, John Clarry, Margaret Wilson and I will complete our current two-year terms.

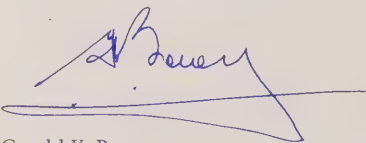
All directors are members of the investment committee. Because of the importance of investment policy to the plan's performance, the committee's membership has been strengthened through the addition of Gary Porter, a certified general accountant, and Jalyynn Bennett, an investment consultant. Membership of board committees appears at the end of this report.

Appointment of auditors

Following a review of the pension plan's requirements under an active investment mandate, the directors appointed the public accounting firm of Deloitte & Touche as external auditors for 1992.

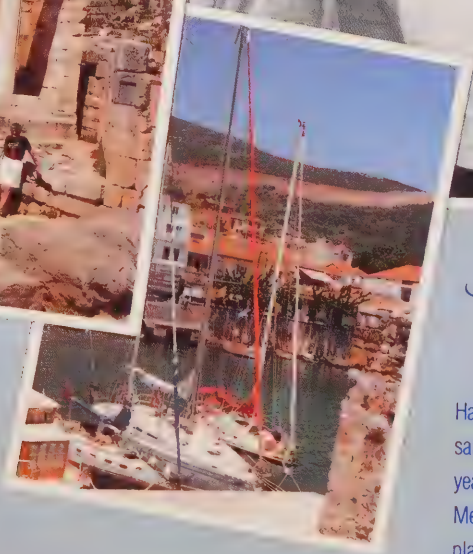
Acknowledgments

On behalf of the directors, I wish to thank all the employees of the pension board for working diligently to improve the quality of services to the province's teachers and to diversify the plan's assets in an orderly and responsible manner.



Gerald K. Bouey
Chairperson

February 22, 1993



Sail to the Mediterranean

When Joan Kneisz retired from teaching kindergarten in Hamilton, she and her husband Steven set sail on their 34-foot sailboat *Okkomut* (Eskimo for "wind at your back"). During their two years and 15,000 miles, they sailed across the Atlantic Ocean, the Mediterranean and Caribbean seas to many exotic and fascinating places.

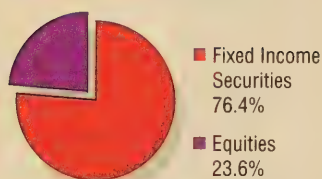
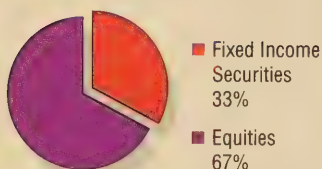
Claude Lamoureux*President and Chief Executive Officer*

During 1992, we made solid progress in diversifying the investment assets of the pension plan and personalizing pension services to our customers. We also initiated programs to enhance the productivity and cost-effectiveness of the pension board.

INVESTMENT ACTIVITIES

Until three years ago, the plan invested exclusively in non-marketable Ontario debentures. Since 1990, we have expanded the portfolio into equities, including the shares of publicly-traded corporations and private businesses, and the ownership of income-producing real estate. We have also developed portfolios in money market securities and government bonds. This asset diversification will provide the plan with a strong financial base to meet the retirement income needs of its members.

A goal for 1992 was to increase equity securities to approximately 30% of total investments, with the remaining investments being fixed-income securities, including debentures. We concluded 1992 with 23.6 per cent in equities and 76.4 per cent in fixed-income securities. Our long-term asset mix target is two-thirds equity assets and one-third fixed-income securities. This weighting recognizes that equities, while often volatile in the short term, historically produce higher rates of return than fixed-income securities over the long run.

Asset Mix 1992**Target Asset Mix****Risk management**

The purpose of diversifying the asset base is to minimize risk and thus increase the security of future pension income. Security of future income based on portfolio risk management is a compelling principle because teachers, who retire on average at age 58, typically live on retirement income for 25 years. Currently, our 41,319 pensioners include 23 who are over 100 years old, 940 in their nineties, and 6,421 in their eighties. Last year, the plan paid out \$893 million in pensions. At year end, the plan's pension obligations to existing members exceeded \$30 billion.

In terms of portfolio management, a major challenge is to reduce the exposure of the large debenture portfolio to interest rate fluctuations. One way in which we are doing this is through the use of financial instruments such as interest rate futures, options and swaps, and contracts that convert interest-based returns into equity-based returns. For a further explanation, please review note 2 of the financial statements.

In terms of overall plan management, the biggest challenge is to choose an asset mix that produces reliable investment returns so that the plan meets the financial expectations of its members.

Stock portfolios

We own one of the largest stock portfolios in Canada with \$5.8 billion invested in the shares of more than 2,000 Canadian, American and non-North American public corporations. The mix of shares in publicly-traded corporations around the world spreads investment risk and enables the plan to enjoy the benefits of different regional economies. This portfolio has been created in two ways.

One is by purchasing the shares of companies that form the TSE 300 Index on the Toronto Stock Exchange, the Standard & Poor 500 Index on the New York Stock Exchange, and the EAFE Index, consisting of shares in European, Australian and Far Eastern companies. These indexed funds represent a large part of our stock holdings.

We also purchase stocks on an individual basis, based on analysis by either our own team of staff specialists or selected external fund managers. This process is called active management. The purpose is to identify shares that, we believe, offer above-average long-term rates of return. By the end of 1992, we had Canadian and non-North American stock portfolios under active management.

The biggest challenge is to choose an asset mix that produces reliable investment returns.

Corporate governance

These stock investments make the pension board a voting shareholder in corporations. Corporate voting rights (which are often expressed as proxy voting) are a fiduciary responsibility that must be exercised in the best interests of the plan to maximize its long-term returns and not to advance any particular social or political agenda.

We developed guidelines on corporate governance issues and proxy voting, as well as conflict-of-interest standards for the pension board's directors and managers.

During 1992, we developed a *Statement of Guidelines and Procedures on Proxy Voting* that now forms part of our investment policy and goals. The proxy guidelines recognize that share values are most likely to be enhanced when all shares have equal voting rights (that is, one share one vote) and that the right to vote is an integral part of the economic value of the share. We believe that all shareholders should be treated equally and that they should be able to vote on issues that have a material influence on a corporation.

The management of a corporation is directly responsible and accountable, through the board of directors, to the shareholders, who are the owners of the company. For this reason, we believe that boards of directors should be independent of management. We prefer that the key positions of chairman and chief executive officer be occupied by separate individuals, with the former speaking for shareholders and the latter for management. These and other points are critical to the integrity of directors as policy makers and effective watchdogs of corporate behavior and financial performance. However, these are guidelines only and must be applied on a case-by-case basis.

The proxy guidelines, which cover a long list of issues, enable us to assess corporate governance matters in terms of the economic impact on shareholder values — and thus on the performance of the pension plan. Any stakeholder interested in receiving a copy of our proxy guidelines should contact our communications department.

Other investment activity

Several teachers have expressed concern about the plan investing in real estate properties, principally because of extensive media coverage of the real estate industry's recent difficulties. Quality real estate, while not a liquid investment, provides better protection against inflation than stocks and bonds. Our policy is to use real estate to diversify and strengthen the plan's asset base.

The value of income-producing properties declined during the economic recession, offering investment opportunities in quality properties that would not normally be available. During late 1991 and in 1992, we bought equity positions in several office, shopping centre and industrial properties, bringing the total real estate portfolio to \$451 million, or roughly 2 per cent of total assets. The continued decline in Canadian property

values last year affected our portfolio, reducing its estimated market value by approximately 4 per cent. However, we acquired these assets after considerable due diligence examination for their long-term values, not one-year results. In the meantime, they are producing income. At year end, the real estate portfolio was generating annualized cash flow of \$29 million.

In 1991, we launched a private placement program to invest equity funds in smaller privately owned business enterprises as well as in capital pools managed by limited partnerships or merchant banks. At the end of 1992, we had \$139 million invested in nine business ventures and seven pooled investments.

Among other investments, the portfolio of fixed-income securities other than the debentures grew by 93 per cent to \$2.3 billion, of which more than half is in money market instruments, such as treasury bills, and the remainder in Government of Canada bonds and mortgages.

Investment performance

We have set a target of inflation plus 4.5 per cent as the plan's investment rate of return over the long term. This target should make it possible to maintain the current plan contribution rate of 8.9 per cent of teachers' salaries, matched by the government and other special employers. The plan's performance is, therefore, vitally important to contribution rates as well as future pension income. The average value of a 35-year career teacher's pension exceeds half a million dollars. Over that career span, we anticipate that contributions from members and the Ontario government will meet between 25 per cent and 30 per cent of pension payments, with the remainder coming from investment income.

In 1992, the plan turned in an 8.9 per cent rate of return for an average of 11.2 per cent over the past three years. After allowing for inflation, the real rate of return was 6.8 per cent in 1992 and 7.3 per cent since 1990.

A key reason why our investment returns have fluctuated dramatically — from 5.6 per cent in 1990 to 19.6 per cent in 1991 and back to 8.9 per cent in 1992 — is the impact of interest rate changes on asset values. Interest rates and bond values have a seesaw relationship — when one goes up, the other goes down. In 1992, interest rates were relatively stable and therefore the market value of the plan's bonds remained substantially unchanged.

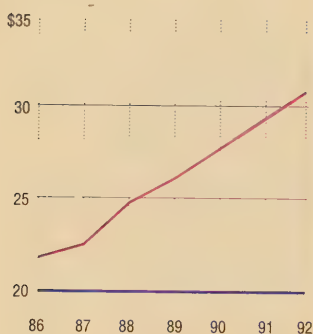
Investment income decreased to \$2.1 billion from \$3.8 billion in 1991.

Quality real estate provides better protection against inflation than stocks and bonds.

The plan produced an 8.9-per-cent rate of return in 1992, compared with 19.6 per cent in 1991. The three-year average rate of return was 11.2 per cent.

We are placing increasing emphasis on improving both the quality and cost-effectiveness of client services.

Average Unreduced Pension
(thousands)



CLIENT SERVICES

The teachers' pension board is one of the few pension administrators that provides services directly to its members, rather than through their employers. The costs of these services are also borne by the pension board, rather than by employers. We are placing increasing emphasis on improving both the quality and cost-effectiveness of client services.

Underscoring the importance of this emphasis is the amount of direct interaction between plan members and the pension board. Last year, we received more than 160,000 calls from teachers and pensioners. We dealt in person with more than 3,540 teachers through retirement planning workshops and counselling interviews, as well as speaking engagements. We communicate with our 200,000 active and retired members through personalized annual statements of benefits, informational pamphlets and brochures, newsletters, and other printed and audio-visual materials.

In addition to paying close attention to efficiencies and costs, we are personalizing services to individuals with specific requirements, such as teachers approaching retirement. Our customer service specialists, for example, not only deal directly with teachers and pensioners on the telephone, but also visit them in the field to participate in workshops and personal interviews.

To further personalize service and eventually lower transaction costs, we are creating a new pension administration system by investing \$8 million in new computer hardware and software that will create one data base for all information relating to plan members. Historically, basic data has lacked consistency among different documents, such as annual statements and pension estimates. The new pension administration system will be operational in 1994. In the meantime, the customer service specialists are using the new computer terminals to access information requested by a caller, ensuring faster and more personalized client service.

We are also working to resolve the lack of consistency among different reporting documents from employers. Currently, we deal with 273 employers, principally school boards but also designated organizations and private schools. By the end of 1992, we had reconciled most of the backlog of inconsistent employer data that had accumulated since the early 1980s.

Among special projects completed last year was the "buy back" program for teachers seeking to purchase eligible credited service to make up for time

away from the classroom. More than 30,000 applications were processed.

The number of pensioners increased last year to 41,319, including 2,732 teachers who retired in 1992, compared with 1,930 retirements in the previous year. We expect approximately 2,200 applications for pension benefits in 1993. The average age of pensioners was 69 and the unreduced retirement pensions averaged \$31,577.

OPERATING COSTS

In managing the pension board's affairs, we follow the business practices of a private sector corporation. To develop a better understanding of the board's operating costs, we are segmenting all expenditures between client services and investments, including an apportioning of such overhead and support services as financial management and reporting, accounting, legal, auditing and actuarial, human resources, communications, and executive management.

Total operating costs were \$37.5 million in 1992, compared with \$25.4 million in 1991. Costs relating to client services were \$23.3 million, compared with \$18.5 million in 1991. Costs associated with investments were \$14.2 million, compared with \$6.9 million the previous year.

Two factors increased client service costs. Approximately \$1.3 million related to the hiring of temporary staff and payment of overtime to permanent staff to handle the surge in work load created by the high teacher response to the "buy back" program. Approximately \$2.7 million was incurred as computer technology expenses for the new pension administration system.

The increase in investment costs reflects the diversification into new assets and activities. For example, stocks are more expensive to administer than bonds over the long term, although the net returns of stocks are higher than bonds. External fund management fees grew substantially as a direct result of increased investment activity and the hiring of fund managers to develop the stock portfolio. Custodial fees increased as the number of securities requiring safekeeping escalated. As expected and planned, salaries and staff benefits increased as we continued the process of creating a professional investment department by hiring specialists at costs competitive with the investment community.

At the end of 1992, the pension board employed 251 equivalent full-time

More than 30,000 applications for the "buy back" program were processed in 1992.

Administrative Expenses

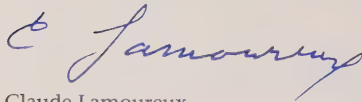
(\$ millions)	1992	1991
Investments		
Salaries and benefits	5.0	2.8
Management fees	4.4	1.3
Custodial and banking fees	2.0	0.7
Professional consulting	1.0	1.1
Premises and equipment	1.0	0.6
Telecommunications and travel	0.7	0.3
Other	0.1	0.1
Total	14.2	6.9
Client Services		
Salaries and benefits	12.6	10.9
Premises and equipment	5.3	3.5
Professional consulting	3.0	1.8
Communications and travel	1.8	1.7
Stationery and supplies	0.4	0.5
Other	0.2	0.1
Total	23.3	18.5

staff, compared with 273 a year earlier. Most employees are permanent staff, although we also hire temporary employees. Staffing was reduced after the "buy back" program.

OUTLOOK

We do not anticipate any increase in the costs of client services from the 1992 level, although investment costs will increase as investment activities continue to expand.

We will continue to stress quality in the services we provide to plan members, and will remain true to our investment goals of managing a diversified asset base to minimize risk of capital and maximize rates of return.

A handwritten signature in blue ink, reading "Claude Lamoureux". The signature is fluid and cursive, with the first name "Claude" written in a smaller, more compact script than the last name "Lamoureux".

Claude Lamoureux
President and Chief Executive Officer

February 22, 1993



Start a Second Career

Before she retired, Cathy Harper invested in Pamom Woodworking of Uxbridge, a supplier of industrial wood products. After more than 33 years of teaching, Cathy is now an active partner in the business and is involved in all aspects of the company, including production, packaging and set up.



This section of the Annual Report discusses financial material in a manner that should assist stakeholders in viewing our performance and financial position through the eyes of management.

ECONOMIC PERSPECTIVE

Economic growth in 1992 fell far short of the general expectations held at the beginning of the year for North America, Europe and Japan, the principal markets in which we are currently investing. North American expansion was slow in the first half of the year before gaining momentum in the third quarter. Recession dragged on for a third year in the United Kingdom and high interest rates in Germany held back growth in the remainder of Europe. Japanese growth fell by half during the year. This disappointing performance resulted in weak corporate income growth and relatively poor equity market returns in the advanced industrial countries. These negatives were counterbalanced by a reduction in inflation and interest rates in most countries, potentially setting the stage for a period of sustained non-inflationary growth.

In Canada, stagnant employment growth, heavy indebtedness, and weak consumer confidence aggravated by high unemployment, held economic activity to about a one-per-cent gain and gross domestic product below its pre-recession peak. Due to the weak economy, stock market earnings failed to recover quickly, resulting in a small negative return on the TSE 300 Index. Poor equity market performance was accompanied by a modest decline in long-term interest rates and a sharp drop in the inflation rate.

GENERAL INVESTMENT POLICY

The pension board manages the plan's investments to earn the best possible rate of return so that increases in contribution rates are avoided and members receive the retirement benefits promised. Our long-term objective is to earn an annual rate of return of 4.5 per cent above inflation

*We attempt to match
long-term liabilities with
suitable long-term assets.*

on a four-year moving average. Discussion of investments and returns throughout this section is based on the effective investment position after consideration of various conversion contracts (see accompanying table). The use of these contracts is disclosed in note 2 of the financial statements.

Our long-term asset mix target is two-thirds equities and one-third fixed-income securities. In 1992, equities represented 26.5 per cent of the asset mix, compared with 19.3 per cent in 1991 and just under 7 per cent in 1990. The remaining investments were fixed-income securities.

Teachers' pension payments are linked to the Consumer Price Index to a maximum inflation adjustment of 8 per cent in a single year, with any excess carried forward. Consequently, our investment policy is liability driven. We attempt to match long-term liabilities with suitable long-term assets. A major concern in this matching process is unanticipated inflation. To offset the risk of liabilities rising and asset values declining, we attempt to invest part of our new funds in assets that respond to unanticipated inflation.

The plan's assets have high exposure to interest rate volatility because they are dominated by the large non-marketable debenture portfolio. A one-per-cent change in long-term interest rates will increase or decrease the market value of the debentures by 7 per cent. We have begun to reduce this volatility by using conversion contracts, such as bond futures and fixed-to-floating interest rate swaps, along with other risk-management techniques. Conversion contracts also facilitate the diversification of the debenture portfolio into equity equivalents. Last year, we completed our first debt-to-equity swaps and equity futures contracts in the United States and non-North American markets.

EQUITY INVESTMENTS

Equity investments totalled \$7 billion at year end, compared with \$4.6 billion in 1991, as shown in the accompanying chart. In late 1990 and in 1991 we concentrated on building Canadian and American stock index portfolios. In 1992, we broadened our activities to non-North American stock index funds as well as to actively managed Canadian and non-North American stock portfolios. We also expanded our activities in Canadian real estate and North American private placements.

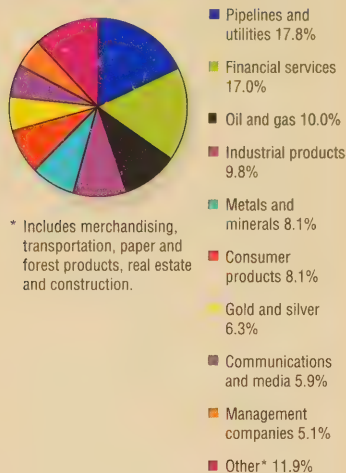
Investments at December 31, 1992

(\$ millions)	At Market Value	Effective Investment Position
Province of Ontario debentures	17,863	17,116
Money market securities	1,244	1,244
Canadian bonds	969	969
Mortgages	73	73
Canadian stocks	3,217	3,217
Foreign stocks	2,568	3,315
Real estate	451	451
Total	26,385	26,385

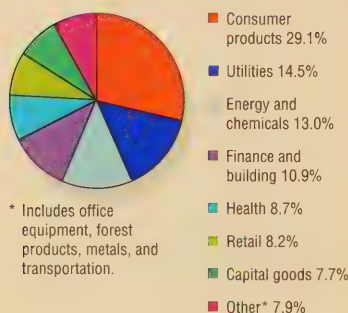
Equity Portfolio

Canadian stocks	44.1%
U.S. stocks	15.9%
Non-North American stocks	31.5%
Private placements	2.0%
Real estate	6.5%

1992 Canadian Stocks by Sector



1992 U.S. Stocks by Sector



Canadian stocks

Canadian stock holdings grew by \$523 million to \$3.1 billion at year end to represent 11.7 per cent of total investments. These holdings are divided between a TSE 300 Index fund and an actively managed stock portfolio.

Purchasing the TSE 300 Index is an efficient investment approach considering the size of our annual allocation to Canadian stocks. However, the Canadian investment universe is limited. While The Toronto Stock Exchange lists about 1,200 companies with a total capitalization approaching \$750 billion, many of these companies are closely held, leaving only a small portion of shares publicly available. The capitalization of the TSE 300 Index is approximately \$265 billion with a public share float estimated at \$180 billion. If our target of investing at least two-thirds of total assets in equities were effective today, and these equities were restricted to the Canadian market, we would already own at least 10 per cent of Canada's 300 most prominent corporations. The limited availability of shares in established corporations requires careful buying to avoid disrupting the market.

We began to assemble an in-house stock portfolio in mid-1991 by selecting shares in companies that we believe represent good value and should outperform the market over the long term. By the end of 1992, this Canadian portfolio had a value exceeding \$1.1 billion.

U.S. stocks

The U.S. stock market performed well in 1992 as the recovering American economy entered the early stages of expansion. During the year, we converted \$580 million of our \$1.2 billion U.S. stock portfolio into S&P 500 futures and directed the cash raised into non-North American stocks. The use of stock index futures maintained our effective U.S. equity exposure at 4.2 per cent of total investments.

Non-North American stocks

Investing in the stocks of non-North American companies provides portfolio diversification and the opportunity to participate in different economies around the world. The performance of European and Japanese markets, for example, because they are not closely correlated with each other or with North American markets, enhance the asset diversification process.

At the end of 1992, the international stock portfolio was valued at \$2.2 billion including conversion contracts, a substantial expansion from the approximately \$600 million invested a year earlier. Approximately half of these stocks are invested in index funds with the other half in actively managed funds. Japanese stocks represent 38 per cent of our non-North American stock portfolio, with other Pacific Rim countries comprising 16 per cent and European stocks 46 per cent.

Our effective exposure to non-North American equities, through direct investment and conversion contracts, is 8.3 per cent of total investments.

Real estate investments

We invest in real estate for much the same basic reason as we invest in stocks and bonds — to generate cash flow. However, commercial real estate gives us some benefits we cannot get solely from stocks and bonds. One is as a more effective hedge against inflation. While inflation is currently low, our obligations to plan members and their dependents span 60 to 70 years, during which time high levels of inflation may recur. Income-producing properties traditionally have a high correlation to inflation and, to some extent, offset the risk of unexpected inflation more effectively than stocks and bonds.

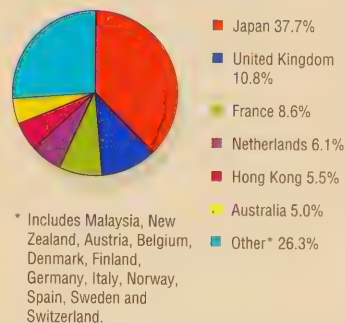
Real estate also reduces our portfolio risk because income-producing properties historically produce higher returns than bonds and have a lower risk factor than stocks. Furthermore, these properties offer attractive total returns of cash flow and capital appreciation over the long term.

Our principal real estate activity is the acquisition of co-ownership positions with established property owners in regional shopping malls, downtown Class A office properties, and industrial buildings in mature business parks.

We closed our first property transaction in October 1991 by becoming a 50-per-cent co-owner of three shopping centres in Winnipeg, Regina, and Richmond Hill, Ontario. In 1992, we purchased a 50-per-cent interest in an office property in downtown Toronto and a similar interest in three office buildings in downtown Vancouver. We also bought a 60-per-cent interest in a shopping centre in Richmond, B.C. and the remaining 40 per cent in early 1993.

By the end of 1992, we owned approximately three million square feet

1992 Non-North American Stocks
by Country



Income-producing properties offer attractive total returns of cash flow and capital appreciation over the long term.

of office, shopping centre and industrial space, representing a \$451-million investment.

The real estate portfolio is geographically diverse, with investments in five provinces. It contains modern buildings that were developed or redeveloped in recent years and have high leasing levels. The portfolio generated annualized cash flow of \$29 million at the end of 1992. During the year, the market value of the portfolio fell by 4 per cent in step with the continued decline in Canadian property values. We believe that property values are approaching the bottom of the current cycle and the long-term outlook for our real estate portfolio is positive in terms of value recovery and appreciation. Our policy is to value each property internally on a semi-annual basis. All properties will be valued by independent appraisers at least once every three years.

Our asset mix policy allows for as much as 10 per cent of total invested assets to be in property ownership. At the end of 1992, only 2 per cent of total investments were in real estate.

Private placement investments

Private placements involve the purchase of equity positions in privately owned business enterprises. These investments enable us to enhance returns and assist growth companies in fulfilling their potential in terms of financial stability, product development, competitive market share, and job creation.

In a little over a year, we have established a presence in the private placement investment field by creating a team of staff specialists and by forming alliances with established intermediaries and other investors.

We only invest in established companies that have proven operating track records, strong management, and significant management ownership. Our preference is for firms that produce value-added products and services, are market share leaders in growing niche markets, have a low threat of product or service substitution, and can sustain their competitive advantages. In return for providing qualified firms with development capital or recapitalization funds to reduce debt, we expect long-term rates of return, higher than those available in the public equity markets.

Our staff team evaluates and negotiates directly held investments. These include investments in two retail organizations, a cable television company,

a national equipment financing and leasing company, a manufacturer of factory automation systems, a textile company, a pharmaceutical research firm, and a distributor of construction equipment.

Our alliances with merchant banks, brokerage houses, and managed funds in Canada, the United States and Europe enable us to invest in growth businesses on a pooled basis with other institutions. We spent a good deal of time selecting these strategic partners because we rely, in part, on their judgment, experience and expertise in originating transactions with good risk/reward profiles. To date, we have made indirect equity placements through seven partners.

In total, we have invested \$139 million in 16 direct and indirect private placements, nine of which were made in 1992. During the next 10 years, we expect our private placement portfolio will exceed \$2 billion in value to become one of Canada's largest active pools of equity investment in privately owned business enterprises.

FIXED-INCOME INVESTMENTS

The fixed-income portfolio totalled \$19.4 billion at year end, compared with \$19.2 billion in 1991. Canada bond yields were basically unchanged in 1992 from the prior year end.

Non-marketable debentures

Non-marketable debentures of \$17.1 billion, including accrued interest, continue to dominate the entire investment portfolio, representing 64.9 per cent of total investments. The reduction from \$18 billion a year earlier was due to maturing debentures and the use of conversion contracts, offset by a slight increase in market values.

In 1992, \$498 million of debentures matured, compared with \$19 million in 1991. During the next five years, \$1.0 billion of debentures will mature. While the Ontario debentures cannot be sold, their value can be estimated by discounting cash flow at the yield that could be obtained from comparable Ontario bonds. Within the next 10 years only 30 per cent of debentures will mature, leaving a large portfolio exposure to fluctuations in long-term interest rates. By using conversion contracts, we've minimized this risk.

Our preference is for firms that produce value-added products and services and are market share leaders in growing niche markets.

Provincial Debentures

(\$ millions)

Maturity date	Market Value
1993 - 1997	1,078
1998 - 2002	3,485
2003 - 2007	6,848
2008 - 2012	5,947

Fixed Income Portfolio

Non-marketable debentures	88.2%
Money market securities	6.4%
Marketable bonds	3.0%
Index-linked bonds and mortgages	2.4%

Rates of Return by Asset Class

%	1992	1991
Ontario debentures	11.0	20.4
Money market securities	7.7	11.8
Canadian bonds	10.5	18.8
Mortgages	10.0	2.4
Canadian stocks	(2.5)	10.4
U.S. stocks	18.8	30.9
Non-North American stocks	7.6	5.9
Private placements	8.1	NA
Real estate	2.6	2.1
Total portfolio	8.9	19.6

Marketable bonds

The portfolio of marketable bonds totalled \$585 million, little changed from \$602 million in 1991. The bond portfolio, which represents approximately 2 per cent of total investments, consists largely of Government of Canada bonds. More than half of the portfolio does not mature for over five years.

Real-rate bonds and index-linked mortgages

Last year we purchased \$384 million of real-rate Canada bonds with a return of 4.75 per cent after inflation. We also own \$73 million of index-linked mortgages, bringing the total inflation-linked portfolio to \$457 million at year end.

Money market securities

Our policy is to maintain approximately 2 per cent of assets in cash. During the year, highly liquid money market securities rose substantially as we held funds for investment in other assets. At year end, this portfolio totalled \$1.2 billion, compared with \$569 million in 1991. Approximately three-quarters of these securities are Canadian treasury bills, with the remainder invested in Canadian and U.S. bank deposits, and U.S. treasury bills.

FINANCIAL PERFORMANCE

On a market-value basis, the pension plan registered an 8.9 per cent rate of return in 1992, compared with 19.6 per cent in 1991, and 5.6 per cent in 1990. After removing the effects of inflation, the real rate of return was 6.8 per cent, compared with 15.8 per cent in 1991 and 0.6 per cent in 1990.

On a three-year basis, the overall performance of 11.2 per cent exceeded the rate of inflation by 7.3 per cent. Our long-term investment goal is to exceed the rate of inflation by 4.5 per cent on a four-year moving average.

Performance benchmarks

We have started to compare the annual and long-term performance of each asset class with external benchmarks. In the case of stocks, the TSE 300 Index measures the total returns (the change in share values plus dividend income) of 300 major corporations listed on the Toronto Stock Exchange; the S&P 500 Index measures the total returns of 500 leading corporations on the New York Stock Exchange; and the EAFE Index,

produced by Morgan Stanley Capital International, is an acronym for a portfolio of shares of companies in Europe, Australia and the Far East.

For fixed-income securities, the Scotia McLeod Universe for Canada bonds is suitable for measuring the performance of Canadian bonds and Ontario debentures, while the yield on 90-day treasury bills provides a benchmark for money market securities.

Once we have completed four years of investment activity and the portfolio asset mix is consistent with our investment policy, the comparison of average rates of return by asset class with external benchmarks will be beneficial in measuring performance.

Increase in net assets

The plan began 1992 with net assets available for benefits of \$24.7 billion. During the year, net assets increased by \$3.1 billion to \$27.8 billion at year end. After allowing for unrealized investment income and expenditures, \$2.9 billion was available for investment, compared with \$2.6 billion available in 1991. These funds came from two principal sources:

- Realized investment income, which totalled \$1.9 billion in both 1991 and 1992.
- The contributions of plan members and the Ontario government, as well as special payments from the government. These totalled \$1.9 billion, compared with \$1.6 billion a year earlier. Member and provincial contributions increased by 10.5 per cent, reflecting the increased salaries being received by members, a change of part-time teachers to full-time positions, and an increase in the number of plan members. The government's special payments toward the pre-1990 unfunded liability totalled \$438 million last year, compared with \$270 million in 1991.

Expenditures arose from three principal sources:

- Payments to pensioners increased to \$893 million, compared with \$806 million in 1991. The increase in benefits included a 5.8 per cent cost-of-living adjustment. During the year, 2,732 teachers retired, bringing to 41,319 the number of pensioners receiving benefits.
- Refunds of contributions and the transfer of benefits to other plans totalled \$28.9 million, compared with \$22.8 million a year earlier.

The government's special payments toward the pre-1990 unfunded liability totalled \$438 million last year, compared with \$270 million in 1991.

- The operating expenses of the pension board rose to \$37.5 million from \$25.4 million in 1991. Costs associated with client services represented \$23.3 million, a 26-per-cent increase from the prior year. Approximately \$1.3 million related to additional staffing to handle the “buy back” program. To improve client services, \$2.7 million was invested in a new pension administration system. Investment expenses were \$14.2 million, a substantial increase from 1991 as we continued to hire investment specialists and the volume of investment transactions escalated, generating increased payments for external management and custodial services.

ACTUARIAL VALUATIONS

In determining accrued pension benefits and funding requirements, three different valuations are important to an understanding of the teachers’ pension plan — the pre-1990 funding valuation, the periodic statutory valuation, and the annual “best estimate” valuation.

Pre-1990 funding valuation

At the beginning of 1990, when the pension board assumed its new investment mandate, it was known that the value of assets in the plan plus the value of future contributions at current rates were insufficient to meet the future pension benefits of existing plan members.

The *Teachers’ Pension Act* required the pension board to retain an independent actuary to determine the statutory liability on January 1, 1990, the contribution rate required from active teachers and the government, and the government contribution to pay off past deficiencies over a 40-year period.

William M. Mercer Limited, an actuarial consulting firm, was retained to prepare the valuation and determine an appropriate contribution rate. On January 1, 1990, the unfunded liability totalled \$7.8 billion, or 19 per cent of total liabilities. The Ontario government is committed to paying this amount by 2030. Since 1990, the plan has received \$895 million.

Future payments will be at the rate of 4.3 per cent of members’ payroll. Initially, these payments will be insufficient to cover interest charges. The unpaid balance will rise to an estimated peak of \$16.3 billion by 2015, before declining and being eliminated in 2030. The rise in the dollar value

Since 1990, the Ontario government has paid \$895 million towards the unfunded liability.

of the unpaid balance should be placed in the context of much greater expected growth in liabilities and members' payroll over the next 22 years. The unpaid balance, even in the peak year of 2015, will be a lower percentage of both total liabilities and members' payroll than it is today.

The actuary confirmed the contribution rate teachers and the province must pay at 8.9 per cent, a rate that should ensure the plan can properly support future benefits and cover related administrative costs.

Statutory actuarial valuation

The Partners' Agreement and the *Pension Benefits Act* require a funding valuation at least every three years. The next statutory valuation will review assets and liabilities, as well as the future contributions and unaccrued benefits of existing members. The valuation will attempt to anticipate the value of these assets and liabilities over the lives of current members.

The statutory valuation takes a conservative approach, as required by legislation and by the Pension Commission of Ontario. It is cautious in making assumptions about economic and demographic trends as far as 70 years away. It builds a safety margin to ensure that the pension benefits promised to members can be delivered.

The statutory valuation will be used to calculate the sharing of future surpluses or deficits between the plan's co-sponsors.

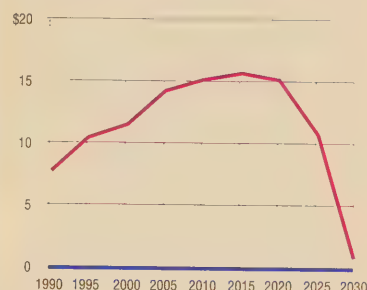
Best estimate actuarial valuation

As a sound management practice and for disclosure in the financial statements, we estimate the plan's funding position based on the cost of future benefits already earned by members. This valuation is calculated by William M. Mercer Limited, based on management's "best estimate" assumptions, and is discussed in further detail in note 4.

At the 1992 year end, the plan's "best estimate" deficiency was \$3.4 billion, or 11.1 per cent of total liabilities. This compared with \$3.7 billion, or 13.3 per cent of total liabilities, a year earlier. In 1992, we adjusted three key assumptions to reflect changes in economic and demographic trends: future rates of return, Consumer Price Index and wage increases.

Amortizing the Unfunded Liability

(billions)



The Ontario government will make special payments every year until 2030 to pay for the unfunded liability.

Comparing the Assumptions

	Actuary's "cautious" valuation Jan. 1, 1990	Pension board's "best estimate" valuation Dec. 31, 1992
Rate of return	8.50%	9.50%*
Wage inflation	5.75%	5.25%
+ seniority		+ seniority
Consumer price index	4.50%	4.25%
Real rate of return	4.00%	5.25%**
Unfunded liability	\$7.8 billion	\$3.4 billion

* Until 2000; 9.00% thereafter

** Until 2000; 4.75% thereafter

The plan's deficiency, on a "best estimate" basis, was reduced by \$243 million to \$3.4 billion.

Reconciling the different valuations

There are fundamental differences in approach between the best estimate and statutory valuations. The best estimate valuation, for example, does not take into consideration unaccrued benefits and future contributions; the statutory valuation does.

Neither approach can accurately foretell the distant future, although their attitudes about that future are different. The statutory valuation is deliberately biased toward a cautious outcome in terms of funding. The best estimate valuation attempts to disclose a more realistic funding situation.

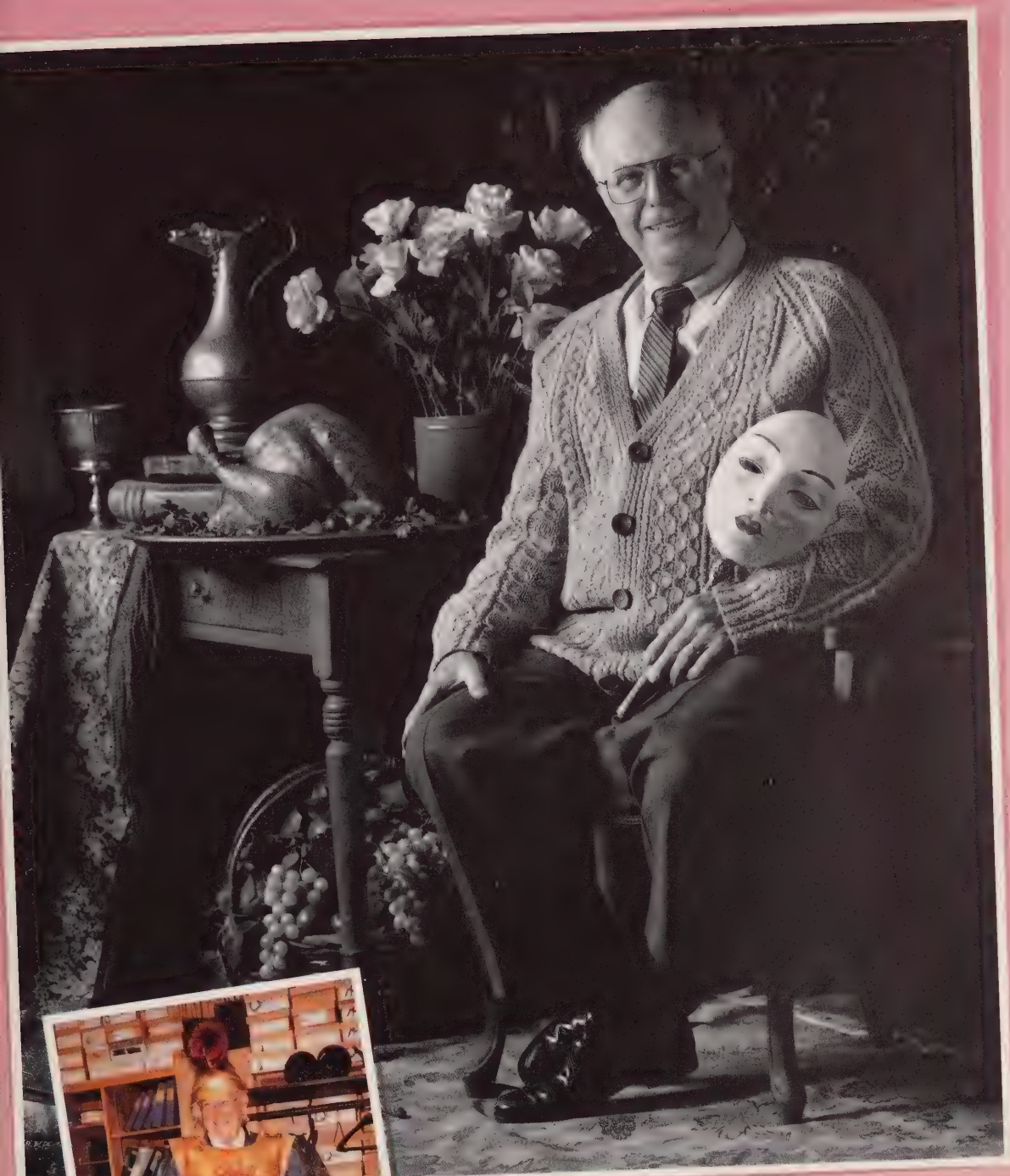
The difference between the two approaches is evident in the estimates of the future rate of return that the plan might earn on its investments. The best estimate valuation, which attempts to be realistic, projects a 9.5-per-cent rate of return. The statutory valuation, which is inherently conservative, reduces this to an 8.5-per-cent investment return.

The deficiencies estimated by these valuations are only projections. They will change as the underlying assumptions change in response to future events. Nevertheless, the valuations provide two perspectives of the plan's possible long-term financial condition so that appropriate adjustments can be made to ensure that investment income and contributions provide the retirement income expected.

OUTLOOK

In 1993, we expect to have \$3.2 billion of new funds available for investment. We will continue to pursue portfolio diversification through an emphasis on equity, including non-North American stocks, Canadian income-producing real estate, and North American private placements. We will also examine opportunities in alternative asset classes, such as global bonds and emerging economies with high potential growth rates. We anticipate renewed economic growth in North America, although the economies of Europe and Japan could continue to stagnate.

Our long-range challenge is to invest available funds effectively so that the portfolio can provide pensions to plan members at a reasonable cost.



Manage an Elderhostel

While travelling throughout the world, Robert Boyce discovered Elderhostel, a residential retreat specifically for travellers over 60. Robert enjoyed his experiences so much he started one in his hometown of Stratford.

Write a Book

Millie Young Hubbert wanted to contribute to social history when she retired, so she became a writer. Her books have covered such topics as her experience teaching native children in the North and of growing up in Southern Ontario.



MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgements. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the Plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the Board.

The Plan's external auditors, Deloitte & Touche, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

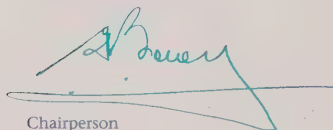
Claude R. Lamoureux
President and Chief Executive Officer

Ian B. McLeod
Vice President, Finance

**STATEMENT OF NET ASSETS AVAILABLE FOR
BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY**
as at December 31, 1992

(\$000's)	1992	1991
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 2)	\$26,385,297	\$23,809,352
Receivable from Province of Ontario (note 3)	1,323,160	1,189,829
Receivable from brokers	42,602	—
Cash	23,978	7,950
Fixed assets	4,548	1,477
	<u>27,779,585</u>	<u>25,008,608</u>
Liabilities		
Payable to brokers	—	309,901
Accounts payable and accrued liabilities	6,678	1,842
	<u>6,678</u>	<u>311,743</u>
Net assets available for benefits	27,772,907	24,696,865
Actuarial asset value adjustment (note 4)	(413,600)	(883,000)
Actuarial value of net assets available for benefits	\$27,359,307	\$23,813,865
ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits (note 4)	\$30,781,000	\$27,479,000
Deficiency	(3,421,693)	(3,665,135)
Accrued pension benefits and deficiency	\$27,359,307	\$23,813,865

On behalf of the Board:



Chairperson



Board Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 1992

(\$000's)	1992	1991
Investment Operations		
Realized investment income	\$ 1,939,799	\$ 1,896,370
Unrealized investment income	205,706	1,947,145
Total investment income (note 5)	2,145,505	3,843,515
Investment expenses (note 9)	(14,243)	(6,946)
Net investment operations	2,131,262	3,836,569
Client Service Operations		
Contributions (note 7)	1,889,476	1,583,664
Benefits (note 8)	(921,431)	(829,226)
Client service expenses (note 10)	(23,265)	(18,474)
Net client service operations	944,780	735,964
Increase in net assets.	3,076,042	4,572,533
Net assets available for benefits, beginning of year.	24,696,865	20,124,332
Net assets available for benefits, end of year.	\$27,772,907	\$24,696,865

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
for the year ended December 31, 1992

(\$000's)	1992	1991
Increase in Accrued Pension Benefits		
Interest accrued on benefits	\$ 2,845,000	\$ 2,588,000
Benefits earned	1,188,000	1,180,000
Changes in actuarial assumptions	606,000	164,000
Experience losses	—	279,000
Increase in accrued pension benefits	4,639,000	4,211,000
Decrease in Accrued Pension Benefits		
Benefits paid	904,000	818,000
Experience gains	433,000	—
Amendments to the Plan	—	305,000
Decrease in accrued pension benefits	1,337,000	1,123,000
Net increase in accrued pension benefits.	3,302,000	3,088,000
Accrued pension benefits, beginning of year.	27,479,000	24,391,000
Accrued pension benefits, end of year.	\$30,781,000	\$27,479,000

STATEMENT OF CHANGES IN DEFICIENCY
for the year ended December 31, 1992

(\$000's)	1992	1991
Deficiency, beginning of year	\$(3,665,135)	\$(3,557,668)
Net increase in net assets available for benefits	3,076,042	4,572,533
Net increase in accrued pension benefits	(3,302,000)	(3,088,000)
Increase (decrease) in actuarial asset value adjustment (note 4)	469,400	(1,592,000)
Deficiency, end of year	\$(3,421,693)	\$(3,665,135)

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* (the Act).

(a) General

The Plan is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The Plan is registered with the Pension Commission of Ontario (registration number C008450).

(b) Funding

Plan benefits are funded by contributions and investment earnings. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (see note 6).

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced pension is available at age 65 or at any age if the sum of a member's age and service equals 90.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of a survivor pension, a lump sum payment or both.

(f) Additional credited service

Members can purchase additional credited service in the Plan for leaves of absence or transfers from other plans.

(g) Withdrawals from the Plan

Subject to the lock-in provisions, withdrawal refunds and transfers, with interest,

are available when a member ceases to be employed in education.

(h) Income taxes

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and, consequently, is not subject to income taxes. The Plan's registration number is 0345785.

(i) Escalation of benefits

Pension benefits are adjusted annually for inflation at 100 per cent of the Consumer Price Index, subject to a limit of 8 per cent in any one year with any excess carried forward.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements present the financial position and operations of the Plan and are prepared in accordance with generally accepted accounting principles.

(b) Investments

Investments are recorded as of the trade date and are stated at market value.

Province of Ontario Debentures (the Debentures), which are not marketable, are stated at estimated market values calculated by discounting the Debenture cash flows based on year-end market yields of comparable securities. Money market securities are carried at amortized cost, which approximates market value. Publicly traded bonds and equity securities are valued at year-end market prices. Other investments for which market quotations are not available such as real estate, mortgages and private placements are valued on a current market yield or appraised basis.

Interest income has been accrued to the year-end date. Dividend income has been accrued in the current year where declarations of dividends have been made but payments are not due until after the year-end date.

The change in the difference between market value and the cost of investments at the beginning and end of each year is reflected as unrealized investment income.

(c) Interest rate and foreign currency futures, options, swaps and debt to equity conversion contracts

Interest rate and foreign currency futures, options, swaps and debt to equity

conversion contracts are recorded at market value with the resulting gain or loss being recognized in unrealized investment income.

Gains or losses on interest rate and foreign currency futures, options, swaps and debt to equity conversion contracts sold or closed out during the year are included in realized investment income.

(d) Accrued pension benefits

Accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by William M. Mercer Limited, a firm of independent actuaries. The valuation is made as at the start of the year and then extrapolated to year end. It uses the projected benefit method prorated on service and management's best estimate of future economic events (see note 4).

(e) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies included in the statement of net assets available for benefits are translated at the rates in effect at year end. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(f) Contributions

Contributions are recorded on an accrual basis except for special payments from the Province which are recorded in the year in which they are received (see note 6).

(g) Benefits

Payments for benefits, refunds and transfers are recorded in the year in which the payment is made.

2. INVESTMENTS

The investment objectives of the Plan are to maximize investment returns and to protect the pension benefits of the Plan members. The strategy employed to achieve these objectives is to invest cash flow from contributions, maturing Debentures and investment returns into a diversified pool of assets such as Canadian and foreign equities, money market securities, government bonds and real estate.

Until January 1, 1990 the Plan had been restricted to investing in non-marketable Debentures which must be held to maturity. The Plan's investment in these

Debentures, amounting to \$17.8 billion, has interest rates and a maturity profile that exposes the Plan to significant market value fluctuations. To manage this exposure in a manner consistent with the investment objectives, the Plan has used interest rate, foreign currency and equity futures, and interest rate and debt to equity swaps (collectively called the Conversion Contracts) during the year. These Conversion Contracts allow the Plan to achieve its objectives relating to asset diversification, interest rate sensitivity, and return, while retaining the non-marketable Debentures. Through these Conversion Contracts, the investment returns from the Debentures are exchanged for returns equivalent to those which would be earned by investing directly in money market and equity securities, as more fully described in note 2 b).

a) The schedule below summarizes the market value and cost of the Plan's investments as at December 31, 1992 and 1991:

(\$000's)	1992		1991	
	Market Value	Cost	Market Value	Cost
Debentures	\$17,862,455	\$15,438,482	\$18,029,523	\$15,944,037
Money market securities	1,244,667	1,244,667	568,939	568,939
Canadian bonds	968,679	960,828	601,528	583,833
Mortgages	72,925	72,925	15,682	15,682
	<u>20,148,726</u>	<u>17,716,902</u>	19,215,672	17,112,491
Equities				
Canadian	3,217,543	3,309,948	2,618,499	2,537,631
Foreign	2,567,884	2,330,194	1,795,552	1,501,971
	<u>5,785,427</u>	<u>5,640,142</u>	4,414,051	4,039,602
Real estate	451,144	469,823	179,629	179,629
	<u>\$26,385,297</u>	<u>\$23,826,867</u>	\$23,809,352	\$21,331,722

Included above is accrued interest and dividends of \$492,712 (1991- \$519,659)

b) The schedule below summarizes the “notional” principal amounts of the Conversion Contracts outstanding at the year end. The principal amounts are termed notional because they are not usually exchanged themselves, but serve as the basis upon which the payments of returns and the market value of the contracts are determined. The main types of contracts used by the Plan are swaps and futures.

Notional principal of outstanding Conversion Contracts at December 31:

(\$000's)	1992	1991
Swap Contracts		
Fixed interest rate	\$(3,564,505)	\$ —
Floating interest rate	2,880,000	—
Equity	684,505	—
	\$ —	\$ —
Futures Contracts		
Interest rate	\$(1,296,522)	\$(2,889,000)
Equity	59,925	—
Currency	104,134	—
	\$(1,132,463)	\$(2,889,000)

i) Swap Contracts

Under swap contracts, the Plan agrees to pay a fixed rate of interest on a notional principal amount of Debentures and in return, the Plan receives income based upon the yield of an equivalent notional amount of money market securities or equities.

Swap contracts outstanding at December 31, 1992 have been used to convert the yield on a notional amount of Debentures of \$3.6 billion (“fixed interest rate swaps”) into:

- i) the yield on a notional amount of \$2.9 billion of money market securities (“floating interest rate swaps”), and
- ii) the return based on a notional amount of \$685 million of equity indices (“equity swaps”).

ii) Futures Contracts

Futures contracts are agreements either to buy or to sell notional amounts of money market securities, bonds, equity securities or foreign currencies at predetermined future dates and prices. As a result of entering into these contracts, returns are generated that are equivalent to the gain or loss that would arise if the securities or foreign currencies had been bought or sold directly at the future price. These contracts permit the Plan to change its exposure to the effects of changing interest rates on the Debentures, while retaining the Debentures themselves.

Futures contracts outstanding at year end have been used as follows:

- i) interest rate futures contracts have been entered into to sell a notional amount of \$1.3 billion (1991 - \$2.9 billion) of fixed income securities which, together with the investment in Debentures, provide the Plan with returns based on short term interest rates and reduce the Plan's sensitivity to interest rate fluctuations;
- ii) equity futures contracts have been entered into to buy a notional amount of \$60 million in equity securities which provide returns based upon the ownership of that amount of equities; and
- iii) currency futures contracts have been entered into to buy the notional equivalent of \$104 million in foreign currency which provide the Plan with returns based upon the impact of foreign currency fluctuations on that amount.

3. RECEIVABLE FROM PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

(\$000's)	1992	1991
Contributions receivable	\$1,186,087	\$1,059,409
Accrued interest	137,073	130,420
	\$1,323,160	\$1,189,829

The receivable from the Province is expected to be collected as follows: \$675 million in 1993 and \$648 million in 1994.

4. ACCRUED PENSION BENEFITS

a) The assumptions used in determining accrued pension benefits were developed by reference to management's best estimate of expected long-term economic trends. Significant long-term actuarial assumptions used in the valuation were:

%	1992	1991
Asset rate of return		
until 2000	9.50	10.25
thereafter	9.00	9.25
Salary escalation rate	5.25	5.75
Inflation rate	4.25	4.50

The actuarial method and assumptions used to determine the best estimate valuation of accrued pension benefits differ from those used in the determination of the pension obligations for funding purposes as described in note 6.

b) The actuarial value of net assets available for benefits is determined by reference to long-term market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the fund amortized over five years. Using this adjustment, market value remains the underlying basis for asset valuation, but fluctuations are averaged over a five-year period.

The year over year change in the actuarial asset value adjustment is reflected in the statement of changes in deficiency.

5. INVESTMENT INCOME

(\$000's)	1992	1991
Interest Income		
Debentures	\$1,479,818	\$1,595,694
Money market securities	62,353	96,247
Bonds		
Canadian	47,859	69,371
Foreign	4,439	—
Mortgages	3,630	457
	1,598,099	1,761,769
Dividend Income		
Canadian equities	107,702	57,289
Foreign equities	35,610	39,657
	143,312	96,946
Real estate	18,467	3,584
	1,759,878	1,862,299
Realized gain on investments	179,921	34,071
	1,939,799	1,896,370
Unrealized change in market value of investments	205,706	1,947,145
	\$2,145,505	\$3,843,515

6. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the Act to determine the funding of the Plan. Active members are currently required to contribute 8.9 per cent of their salaries to the Plan with matching contributions from the Province and other employers.

The assumptions and actuarial methods used to determine statutory pension benefits are different than those used to calculate the amount disclosed in the statement of net assets available for benefits and accrued pension benefits and deficiency. Due to its conservative approach, the statutory valuation will result in a higher estimate of accrued pension benefits.

A statutory valuation of the Plan, prepared by William M. Mercer Limited, as at January 1, 1990 disclosed an unfunded liability of \$7.8 billion. This unfunded liability is the responsibility of the Province and is being paid off with interest by a series of special payments over the 40 year period which commenced January 1, 1990. Since 1990, the Plan has received \$895 million of special payments toward the unfunded liability and accrued interest thereon.

On January 1, 1992 the Province and Plan members agreed to an equal partnership for the sponsorship and financial responsibility of the Plan. Under the agreement, any actuarial gains and losses reflected in statutory valuations in the period January 1, 1990 to December 31, 1991 are the responsibility of the Province. The Province and the Plan members will ultimately have an equal share in future actuarial gains or losses. The movement to equal sharing is being phased in over a five year period ending December 31, 1996.

7. CONTRIBUTIONS

(\$000's)	1992	1991
Members		
Current service	\$ 606,093	\$ 560,761
Optional credit	49,008	36,238
Repayments of refunds	18,851	29,181
	673,952	626,180
Province of Ontario		
Current service	598,126	552,596
Optional credit	32,360	4,413
Interest	100,473	97,320
Special payments (note 6)	438,080	269,707
	1,169,039	924,036
Other employers	9,601	8,858
Transfers from other pension plans	36,884	24,590
	\$1,889,476	\$1,583,664

8. BENEFITS

(\$000's)	1992	1991
Retirement pensions	\$811,607	\$733,232
Disability pensions	23,131	21,397
Death benefits		
Survivor pensions	52,948	47,344
Lump sum payments	4,888	4,454
	57,836	51,798
	892,574	806,427
Refunds	11,226	11,272
Transfers to other plans	17,631	11,527
	\$921,431	\$829,226

9. INVESTMENT EXPENSES

(\$000's)	1992	1991
Salaries and staff benefits	\$ 4,974	\$2,813
Investment management fees	4,412	1,323
Custodial and banking fees	1,969	679
Premises and equipment	996	649
Professional consulting services	912	932
Publications and regulatory fees	398	142
Communication and travel	342	201
Audit fees	79	68
Stationery and supplies	77	73
Board and committee remuneration	64	58
Other	20	8
	\$14,243	\$6,946

10. CLIENT SERVICE EXPENSES

(\$000's)	1992	1991
Salaries and staff benefits	\$12,577	\$10,883
Premises and equipment	5,287	3,538
Professional consulting services	2,770	1,613
Communication and travel	1,823	1,650
Stationery and supplies	424	489
Board and committee remuneration	96	88
Audit fees	79	68
Banking fees	77	68
Publications and regulatory fees	60	27
Other	72	50
	\$23,265	\$18,474

11. CONTINGENCY

A claim has been made against the Plan because of corrective steps taken in September 1986 in order to conform to a legal interpretation of a previous act. These steps have resulted in the reduction of approximately 1,500 pensions on a prospective basis. The Supreme Court of Ontario has agreed with the Plan's interpretation with respect to this claim, but the claimant has appealed.

The outcome of this appeal cannot be reasonably determined at this time. Accordingly, no provision for it has been made in these financial statements. Any settlement will be recorded in the year it becomes determinable.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1992.

**Deloitte &
Touche****AUDITORS' REPORT TO THE ADMINISTRATOR**

We have audited the statement of net assets available for benefits and accrued pension benefits and deficiency of the Ontario Teachers' Pension Plan as at December 31, 1992 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficiency for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Plan as at December 31, 1992 and the changes in its net assets available for benefits, accrued pension benefits and deficiency for the year then ended in accordance with generally accepted accounting principles.

The prior year's financial statements were reported on by another firm of Chartered Accountants.

Chartered Accountants
Toronto, Canada
February 5, 1993

ACTUARIES' OPINION

We have performed an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the Plan) as at December 31, 1992, for inclusion in the Plan's financial statements.

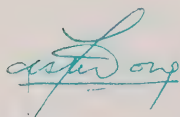
The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at December 31, 1991;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events; and
- information provided by the Education Relations Commission on negotiated wage settlements in 1991 and 1992.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1992 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act*, and the *Pension Benefits Act*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate the Plan's liabilities for financial statement purposes represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods used are consistent with sound actuarial principles, and that the assumptions are appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with generally accepted actuarial principles.



Lester J. Wong, F.C.I.A.
February 12, 1993



Malcolm P. Hamilton, F.C.I.A.

FINANCIAL HIGHLIGHTS - THREE YEAR REVIEW(\$ millions) for the year ended December 31 **1992** 1991 1990**CHANGES IN NET ASSETS****REVENUES**

Investment Income			
Realized	1,940	1,896	1,957
Unrealized	205	1,947	(926)
	2,145	3,843	1,031
Contributions			
Members	710	651	559
Province of Ontario			
- current and past service	731	654	579
- unfunded liability	438	270	187
Other employers	10	9	8
	1,889	1,584	1,333
Total Revenue	4,034	5,427	2,364

EXPENDITURES

Benefits paid	892	806	742
Refunds and transfers	29	23	18
Administrative expenses	37	25	20
Total Expenditures	958	854	780

INCREASE IN NET ASSETS	3,076	4,573	1,584
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NET ASSETS

Investments			
Province of Ontario debentures	17,863	18,030	16,449
Money market securities	1,244	569	1,385
Canadian bonds and mortgages	1,042	616	295
Equities	5,785	4,414	1,327
Real estate	451	180	—
	26,385	23,809	19,456
Receivable from Province of Ontario	1,323	1,190	945
Other assets	72	10	—
Liabilities	(7)	(312)	(277)
Net Assets	27,773	24,697	20,124

Actuarial value adjustment	(414)	(883)	709
Actuarial value of net assets	27,359	23,814	20,833
Actuarial value of pension benefits	30,781	27,479	24,391
DEFICIENCY	3,422	3,665	3,558

INVESTMENTS IN CORPORATE SHARES AND CONVERTIBLE DEBENTURES

Greater than \$15 million
as at December 31, 1992

Enterprises	Par Value (\$)	Number of Shares	Market Value (\$000's)
Corporate Shares			
ABN Amro Holdings	669,211	23,750	
Alberta Energy Company Ltd.	2,162,500	35,141	
Alcan Aluminum Limited	3,118,878	70,557	
American Barrick Resources Corp.	1,762,100	69,162	
Bank of Montreal	1,272,600	58,062	
Bank of Nova Scotia, The	2,152,300	51,117	
BCE Inc.	3,201,400	132,858	
Bombardier Inc.	1,301,000	15,287	
Cambridge Shopping Centres Ltd.	2,665,224	34,670	
Canadian Pacific Ltd.	3,347,300	53,975	
Canadian Imperial Bank of Commerce	3,288,064	87,956	
Cara Operations Limited	3,524,500	16,565	
Chieftain International Inc.	751,000	16,522	
Commcorp Financial Services	1,350,000	25,650	
Co-Steel Inc.	1,411,600	25,056	
Dai-Ichi Kangyo Bank Ltd.	1,045,000	17,783	
Exxon Corporation	320,780	24,923	
Fuji Bank	953,000	17,480	
Fuji Photo Film Co.	642,000	17,271	
General Electric Company	149,143	16,209	
Hitachi Ltd.	3,146,000	24,107	
Horsham Corporation	3,144,600	34,984	
Imasco Limited	748,500	30,876	
Imperial Oil Limited	631,250	25,645	
Inco Limited	1,776,254	50,621	
Industrial Bank of Japan Ltd., The	770,000	19,380	
Inter-City Products Corporation	3,488,000	24,852	
International Semi-Tech Micro Electronics Inc.	1,226,300	23,146	
IAC Minerals Ltd.	3,086,450	20,834	
Laidlaw Inc.	3,076,100	35,891	
Maclean Hunter Limited	3,807,100	46,161	
Matsushita Electric Industrial Co. Ltd.	1,901,000	22,471	
MDS Health Group Limited	966,600	15,721	
Metall Mining Corporation	2,171,000	27,658	
Molson Companies Limited, The	579,450	16,639	
Moore Corporation Limited	1,343,032	29,379	
Morrison Petroleum Ltd.	632,900	16,139	

National Bank of Canada	2,538,400	20,625
Noranda Inc.	1,168,200	21,612
Norcen Energy Resources Limited	1,191,600	20,830
Northern Telecom Limited	1,270,614	69,869
Nova Corporation of Alberta	4,235,400	37,060
Pegasus Gold Inc.	1,114,500	20,903
Philip Morris Companies, Inc.	154,873	15,183
Placer Dome Inc.	2,580,880	38,070
Potash Corporation of Saskatchewan Inc.	1,293,700	33,451
Power Corporation of Canada	1,712,000	26,536
Power Financial Corporation	968,200	20,211
Quebecor inc.	2,289,400	39,928
Ranger Oil Limited	3,553,800	24,877
Renaissance Energy Ltd.	1,142,400	21,277
Repsol SA	524,925	16,053
Rio Algom Limited	1,996,200	28,817
Royal Bank of Canada, The	4,712,600	116,048
Seagrams Company Ltd., The.....	2,572,817	83,597
Societe Generale	110,000	15,642
Societe Nationale Elf Aquitaine	413,850	34,491
Sumitomo Bank	1,082,000	19,956
Telus Corporation	1,494,300	19,426
Thomson Corporation, The	3,268,600	47,395
Toronto-Dominion Bank, The	5,471,700	90,967
TransAlta Utilities Corporation	1,619,092	22,263
TransCanada Pipelines Limited	1,567,000	27,618
Trilon Financial Corporation	7,555,053	33,243
Trizec Corporation Ltd.	19,269,700	54,372
Unilever N.V.	152,614	20,250
Wal-Mart Stores, Inc.	191,706	15,595
Westcoast Energy Inc.	1,812,900	29,113
White Rose Crafts and Nursery Sales Limited	150,000	21,000

Convertible Debentures and Corporate Shares

Morgan Hydrocarbons Inc. 9.0% Due Aug. 31, 2000	15,000,000	312,600	19,641
Power Financial Corporation 8.0% Due Apr. 30, 2014	171,000,000		205,200
Repap Enterprises Inc. 8.5% Due Aug. 01, 1997	17,400,000	2,673,000	15,566
Telecom Telesystem LTD. 5.44% Due Nov. 18, 2002	31,250,052		32,798
Unigesco Inc. 6.5% Due Jan. 15, 2002	25,000,000		23,000

SCHEDULE OF PROVINCE OF ONTARIO DEBENTURES

as of December 31, 1992

(\$ millions)

Maturity Date	Coupon %	Market Value	Cost
1993—1997	7.00 — 7.99	113	115
	8.00 — 8.99	371	367
	9.00 — 9.99	110	108
	10.00 — 10.99	208	197
	11.00 — 11.99	68	64
	16.00 — 16.99	208	165
		1,078	1,016
1998—2002	7.00 — 7.99	5	5
	8.00 — 8.99	286	286
	9.00 — 9.99	1,585	1,495
	10.00 — 10.99	362	335
	11.00 — 11.99	809	717
	12.00 — 12.99	142	121
	13.00 — 13.99	165	137
	14.00 — 14.99	131	107
		3,485	3,203
2003—2007	9.00 — 9.99	188	177
	10.00 — 10.99	1,503	1,363
	11.00 — 11.99	692	590
	12.00 — 12.99	2,016	1,626
	13.00 — 13.99	986	775
	14.00 — 14.99	450	335
	15.00 — 15.99	1,013	707
		6,848	5,573
2008—2012	10.00 — 10.99	2,117	1,911
	11.00 — 11.99	3,489	3,010
	15.00 — 15.99	341	238
		5,947	5,159
Accrued Interest		488	488
		17,846	15,439

BOARD OF DIRECTORS

Gerald K. Bouey, Chairperson
John H.C. Clarry
Gail Cook-Bennett
Duncan Green
Martin R. Hicks
Doug McAndless
C. Edward Medland
Lynne Sullivan
Margaret Wilson

Investment Committee

C. Edward Medland, Chairperson
Jalynn Bennett
Gerald K. Bouey
John H.C. Clarry
Gail Cook-Bennett
Duncan Green
Martin R. Hicks
Doug McAndless
Gary Porter
Lynne Sullivan
Margaret Wilson

Audit and Actuarial Committee

Doug McAndless, Chairperson
John H.C. Clarry
Gail Cook-Bennett
Martin R. Hicks
Lynne Sullivan

**Benefits Adjudication Committee
(Appeals)**

Duncan Green, Chairperson
Ron Edwards
Sherry Corden Fairweather
David Kennedy
Kim McCulloch
Ethel McLellan
David Paton
Beverly Polowy
Ron Poste
Raymond Prévost
Roger Régimbal
George Saranchuk

CORPORATE DIRECTORY

President and Chief Executive Officer: Claude Lamoureux

Investments:

Senior Vice-President: Robert Bertram
Vice-President, Fixed Income: Patricia Murphy
Vice-President, Equities: Heather Hunter
Vice-President, Research and Development: George Engman
Vice-President, Real Estate: Brian Muzyk
Vice-President, Core Portfolios: Morgan McCague

Client Services:

Vice-President: William Foster

Corporate Affairs and Communications:

Vice-President: John Brennan

Finance:

Vice-President: Ian McLeod

Management Information Services:

Vice-President: Al Reesor

Law:

General Counsel: Roger Barton

Internal Audit:

Vice-President: John Dickson

The information described in this annual report does not fully describe the benefits of the pension plan. If there are any discrepancies, the *Teachers' Pension Act* will apply.

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager at 730-5347.

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street
North York, Ontario
M2M 4H5
Toll-free: 1-800-668-0105
Local: 226-2700

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Annual Report 1993



Teachers'
Pension Plan
Board





CORPORATE MISSION

Teachers can rely on the Ontario Teachers' Pension Plan Board to provide the financial base and pension benefits knowledge around which to plan their retired lives.

CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is an independent corporation established in 1990 by provincial statute. It administers the defined benefit pension plan of the province's teachers and provides them with personalized customer services. The pension board manages the plan's investments with the objective of producing sufficient investment returns to provide plan members and their families with retirement income, indexed to inflation.

The plan's membership consists of 160,000 elementary and secondary school teachers and more than 43,000 retired teachers. There are also approximately 88,000 former teachers with entitlements in the plan.

Originally created in 1917, the teachers' pension plan was restricted to investing in non-marketable Ontario debentures until 1990 when legislation empowered it to diversify investments to help make the plan fully funded over the long term. Today, the plan's assets include equities, mainly the shares of corporations, and fixed-income securities, principally government bonds. With total assets exceeding \$34 billion, the teachers' pension plan is the largest invested pension plan in Canada and ranks among the nation's largest financial institutions.

The plan is co-sponsored by a partnership between the Ontario government and the plan members, who are represented by the Ontario Teachers' Federation. The partners are responsible for defining plan benefits and for appointing four members each to the pension plan's board of directors. The partners jointly select the chairperson.

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*Printed with vegetable-based inks on
acid-free paper with 40% recycled content,
including 10% post-consumer waste*

FINANCIAL HIGHLIGHTS

1

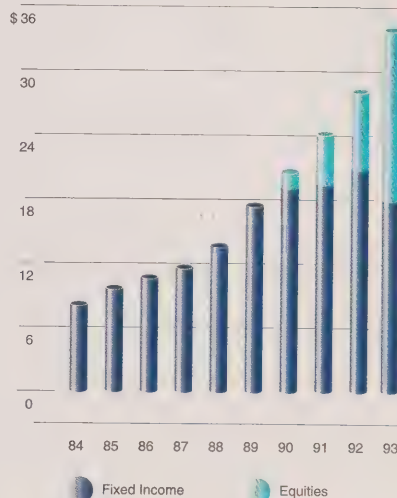


FINANCIAL POSITION

(\$ billions at December 31)	1993	1992
Assets	34.7	27.8
Ontario debentures	15.7	17.2
Money market securities	1.3	1.2
Bonds and mortgages	1.2	1.0
Equity investments	14.5	6.5
Real estate	.6	.5
Other	1.4	1.4
Actuarially adjusted assets	30.8	27.4
Future cost of benefits	34.0	30.8
Deficiency	3.2	3.4
Rate of Return	21.7%	8.9%

TOTAL ASSETS

(\$ billions at December 31)



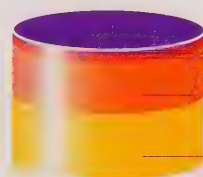
MEMBERSHIP PROFILE



Pensioners	43,400
Inactive Members	88,000
Active Members	160,000

1993 ASSET MIX

(at December 31, 1993)

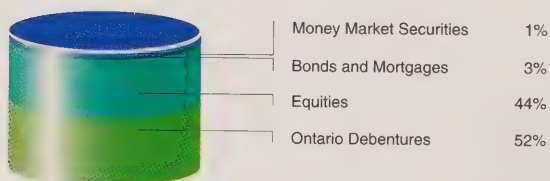


Real Estate	2%
Bonds and Mortgages	3%
Money Market Securities	4%
Equities	44%
Ontario Debentures	47%

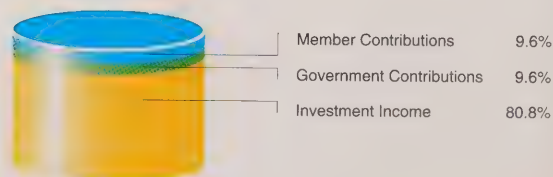
ACTIVITY DURING THE YEAR

(\$ millions)	1993	1992
Investment operations		
Investment income	5,907	2,145
Investment expenses	(20)	(14)
	<u>5,887</u>	<u>2,131</u>
Customer service operations		
Contributions	1,401	1,889
Benefits paid	(1,001)	(921)
Customer service expenses	(24)	(23)
	<u>376</u>	<u>945</u>
Distribution of actuarial gain	<u>(325)</u>	<u>—</u>
Increase in net assets	5,938	3,076
Increase in cost of future pension benefits	(3,217)	(3,302)
Change in market value adjustment	(2,533)	469
Decrease in deficiency	188	243

1993 INVESTMENT INCOME



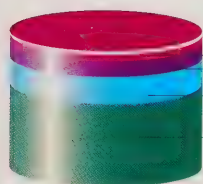
1993 REVENUE



FINANCIAL POSITION AT YEAR END

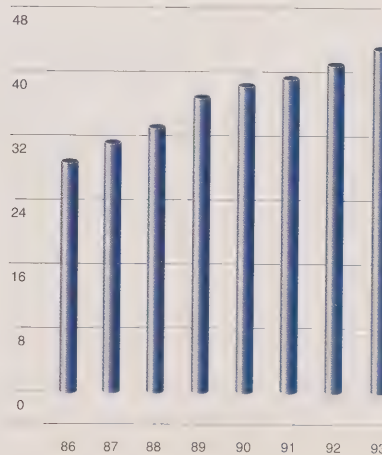
(\$ millions)	1993	1992
Where assets are invested		
Ontario debentures	15,666	17,177
Money market securities, bonds and mortgages	2,451	2,287
Equities	14,545	6,470
Real estate	608	451
Contributions receivable	1,362	1,323
Other assets	36	72
	34,668	27,780
Liabilities	957	7
	33,711	27,773
Adjustment to smooth market value fluctuations	(2,947)	(414)
	30,764	27,359
Future use of assets		
Pension benefits	33,998	30,781
Deficiency	3,234	3,422

TYPES OF PENSIONS



Disability Pensions	4%
Survivor Pensions	12%
Reduced Pensions	21%
Unreduced Pensions	63%
Total Pensions	43,400

NUMBER OF PENSIONERS (thousands)



Mike Stack teaches computer science at St. Joseph-Scollard Hall, North Bay (top).



Cindy Ambrose teaches physical education at Parkfield Junior School, Etobicoke (middle).

Richard Henderson teaches grades four and five at Wells Street Public School, Aurora (bottom).





Jean Leavoy talks to her grade one students at Parkfield Junior School, Etobicoke (top).

Jane Murphy reads to her students at Wells Street Public School, Aurora (middle).

Nadia Kuz teaches computer science at Centre Wellington District High School, Fergus (bottom).





Gerald K. Bouey
Chairperson

Since January 1, 1992, the sponsorship of the Ontario teachers' pension plan has been based on a full partnership of the provincial government and the Ontario Teachers' Federation (OTF). This partnership, with two sponsors now sharing equally in the plan's future losses and gains, is a rarity in the Canadian pension fund industry.

OUR CORPORATE CHARACTER

The teachers' pension plan board is different from many pension organizations in that it operates very much like a private sector corporation. In our case, it is a large corporation with assets under administration exceeding \$34 billion.

The pension plan has its own board of directors, a chief executive officer and senior management team, and more than 200,000 plan members who are both financial stakeholders and customers.

The similarity between the relationship of the board and plan members to that of a corporation and its shareholders is evident in two ways. First, each teacher has pension benefits in the plan of roughly \$170,000. This is a large individual vested interest. Second, approximately three-quarters of the fund value used to provide teachers' retirement income depends on management's expertise in achieving long-term investment targets approved by the directors.

At the same time, teachers and pensioners are

*Both partners decided that the government
could take its gains without jeopardizing
members' pensions.*

customers of the corporation. We are one of few pension organizations that provides services to members directly, rather than through their employers.

THE SHARING OF ACTUARIAL GAINS

Until the end of 1991, the government was the sole sponsor of the plan and therefore exclusively entitled to gains or responsible for losses. Following extensive discussions, the OTF and the government agreed to share sponsorship on a gradual basis. The government's share of surpluses or deficiencies was to decline to 80 percent in 1993 and 60 percent in 1995 before reaching parity with the OTF in 1997.

In 1993, the government decided to exercise its right to take its gains for the years 1990 to 1992. An independent valuation on January 1, 1993 estimated the gains at \$1.5 billion, principally because future wage and inflation rates are expected to be lower than the rates projected in the 1990 valuation.

The government will obtain most of the gains by saving \$1.2 billion in the scheduled special payments it has undertaken to make toward retirement of the unfunded liability. Included in this amount is \$342 million already paid by the government in 1993 and returned by year end. A further \$325 million over the next two years will take the form of reduced current service contributions.

As part of the negotiations with OTF on this matter, the government agreed that after January 1, 1993 actuarial gains and losses will be shared equally, four years earlier than originally scheduled.

RESPONSIBILITIES OF THE PARTNERS

In 1992, the partners formed a six-member committee to oversee changes to the design of the plan. The partners' committee makes decisions about funding levels and the scale of benefits paid to members. In the event of surplus funds, it decides whether to take gains out of the plan, to create a larger "safety cushion" against future losses, to reduce contribution rates, or to change benefits. In 1993, both partners decided that the government could take its gains without compromising the plan or jeopardizing members' pensions.

RESPONSIBILITIES OF THE BOARD

The fiduciary responsibilities of the board of directors and senior management are quite different from the responsibilities of the partners.

The partners appoint the directors, who in turn appoint the chief executive officer and approve his selection of senior officers. The directors are responsible for the administrative, investment and compensation policies, and oversee implementation of these policies by management.

Our fiduciary obligation is spelled out in common law, the *Teachers' Pension Act*, *Pension Benefits Act* and *Income Tax Act (Canada)*. The directors and senior officers are required by law to act in the best interests of plan members and their survivors.

We demonstrate our commitment to protecting the interests of members in many ways. We diversify plan assets to produce reliable long-term investment returns. In 1993, the plan's asset base expanded by \$6.9 billion to exceed \$34 billion. Much of that expansion was into corporate shares as part of our strategy of ultimately holding two-thirds of the plan's assets in equities. This trend of increasing equity holdings will continue.

We also protect member interests by retaining the best talent available to administer the plan and execute its investment policy.

The exercise of share ownership rights and the payment of competitive management compensation deserve additional comment to assist stakeholders in understanding our policies and practices.

SHARE OWNERSHIP RIGHTS

In 1992, the board approved a *Statement of Guidelines and Procedures on Proxy Voting* to assist management in exercising our share ownership duties. The guidelines are the nucleus of our corpo-

rate governance policy and deal with a long list of corporate issues.

We believe that a company's resources should be devoted primarily to increasing share value. In our view, management should be directly accountable for this goal to the owners through the directors. As a rule, companies best serve shareholders when most directors are independent of management and have expertise in business, finance, investment, and the professions. We also believe that directors should represent all shareholders, not specific interest groups.

BOARD STRUCTURE

As one of the largest financial institutions in Canada, the pension plan board strives to abide by these beliefs. Business, professional and investment expertise is well represented on our board. The full board forms the investment committee, supplemented by two outside financial specialists. All of this underscores that the partners recognize the importance of appointing impartial experts to represent plan members. This is also consistent with our expectations of the corporations in which we own shares.

To retain board vitality and orderly succession, each director is eligible to serve for eight years, a maximum of four two-year terms. The terms are staggered to ensure continuity. Thumbnail biographies of our directors are on page 10.

*Our corporate governance policy emphasizes
that executive compensation should be linked
to corporate performance.*

MANAGEMENT COMPENSATION

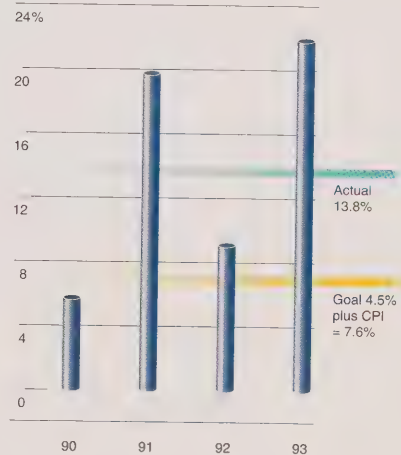
Effective October 1993, the Ontario government required publicly traded corporations to disclose the compensation package of their top five executives. The purpose is to assist shareholders in relating management rewards to corporate performance.

We welcome this disclosure. Our corporate governance policy emphasizes that executive compensation should be linked to corporate performance. Our credibility as a major corporate investor rests on "practising what we preach." We are accountable to our sponsors, to the over 200,000 teachers and pensioners who are members of the plan, and to the taxpayers of Ontario. We have decided to voluntarily disclose senior management compensation information. This has been included in note 9c to the financial statements.

Our senior managers are paid competitively with the private sector financial marketplace as well as commensurate with their responsibilities and the achievement of pre-set performance targets. In 1992, the full board, which acts as the compensation committee, approved a compensation-for-performance program. With the assistance of independent compensation consultants, we established pay ranges based on similar positions in insurance companies, banks, major pension plans and other comparable institutions.

Since 1990, the total portfolio rate of return has averaged 13.8 percent, providing a real rate of return of 10.7 percent after inflation, well above our goal.

RATE OF RETURN

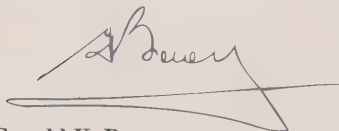


Investment managers are rewarded for individual performance, the investment results of the portfolios for which they are responsible, and the performance of the total fund. Targets are measured against external benchmarks. Administrative managers, who directly or indirectly serve teachers and pensioners, are rewarded for meeting service and cost control targets. Executive officers are compensated for achieving corporate objectives approved by the board of directors.

Incentives, which can be an important portion of total annual compensation, ensure that the financial rewards of senior managers correlate with the pension and service interests of plan members. Our incentive programs include approximately 25 percent of our total staff of 256.

ACKNOWLEDGEMENTS

We are now in our fifth year as a new corporation operating under a mandate of investment diversification and direct public accountability for our activities. I am pleased with the progress made in establishing a corporate entity that responds to sound business practices. The transition has not been entirely smooth and unexpected challenges have arisen. The staff of the pension board deserve warm congratulations for executing the investment mandate and introducing many dramatic improvements in the speed and quality of services delivered to the province's teachers and pensioners.



Gerald K. Bouey

Chairperson

March 24, 1994

GERALD K. BOUEY

former Governor of The Bank of Canada. *Chairperson of the Board*

JOHN H.C. CLARRY

counsel with McCarthy, Tétrault, barristers and solicitors

GAIL COOK-BENNETT

Executive Vice-President of Bennecon Ltd., former economics professor at the University of Toronto and senior executive with the C.D. Howe Research Institute

DUNCAN GREEN

former Director of Education for the Toronto Board of Education and Assistant Deputy Minister with the Ministry of Education. *Chairperson of the Benefits Adjudication Committee*

MARTIN HICKS

investment consultant with extensive experience in the Canadian and U.S. investment industries, and former senior executive at Pru-Bache Securities

DOUG MCANDLESS

former public school teacher and past president of the Ontario Teachers' Federation. *Chairperson of the Audit and Actuarial Committee*

C. EDWARD MEDLAND

former Chief Executive Officer of Wood Gundy Inc. *Chairperson of the Investment Committee*

LYNNE SULLIVAN

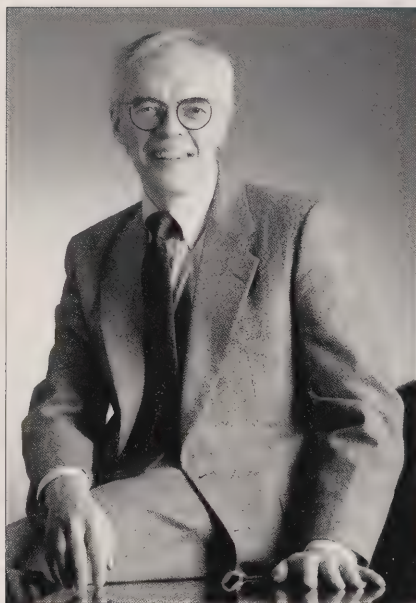
principal with Towers Perrin, management consultants and actuaries

MARGARET WILSON

Secretary-Treasurer of the Ontario Teachers' Federation, past president of the federation and former secondary school teacher



Susan McPhedran teaches environmental science in the greenhouse at Centre Wellington District High School, Fergus.



Claude Lamoureux
President & Chief Executive Officer

Since 1990, the total portfolio rate of return has averaged 13.8 percent.

The plan exceeded its long-term performance target of 4.5 percent above inflation for the fourth consecutive year in 1993 as we continued to shift investments into equities. Challenges arose, however, on several other fronts. The government's social contract, purchases of credit by occasional teachers, and the tax status of purchases of past service are issues that affect the plan and its members. At the same time, we implemented administrative changes to improve the quality and constrain the cost of services we provide to teachers and pensioners.

INVESTMENT OVERVIEW

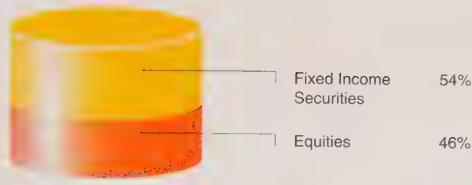
We initiated an investment policy of diversification in 1990 with the goal of changing the plan's assets from virtually all Ontario debentures to two-thirds equity investments and one-third fixed-income securities. We ended 1993 with 46 percent of assets in the form of equities or equity equivalents and the remainder in fixed-income securities.

We purchase the common shares of major corporations not only in Canada but throughout the world by following two approaches. Under one approach, we buy the shares of companies listed on major stock market indices, such as the TSE 300 on the Toronto Stock Exchange. This is an efficient way to assemble a large portfolio of essentially blue-chip stocks in a diversity of economic sectors and different global economies, such as Europe and Japan.

We also select individual firms for equity investment. Our analysts and portfolio managers analyze companies to identify shares that offer above-

1993 ASSET MIX

(at December 31, 1993)



average long-term rates of return. This approach is similar to that of any investor seeking to buy a company. We examine the company's past financial performance, operations, management quality, long-term business plan, board structure and board independence.

The plan has owned shares in as many as 2,000 companies at any one time. In some cases, these are large investments. In 1993, for instance, the plan owned shares valued at \$25 million or more in 70 companies.

At the 1993 year end, equity investments totalled \$14.5 billion, including \$0.2 billion in privately owned business enterprises, compared with \$6.5 billion a year earlier. The plan also owned approximately \$0.6 billion of equity in income-producing real estate properties.

In the case of fixed-income securities, the non-tradable debentures continued to dominate. However, we have diversified into domestic bonds, the bonds of foreign governments, and index-linked bonds and mortgages. We also maintain funds in liquid assets, such as treasury bills, so that we have cash readily available for longer term investment.

Fixed-income securities totalled \$18.1 billion at the end of 1993, compared with \$19.5 billion the previous year.

Investment performance

The plan earned a 21.7 percent rate of return in 1993. After allowing for inflation, the real rate of return was 20 percent. Overall, equities performed very well as world stock markets experienced

ASSET MIX GOAL



strong growth during 1993. Equities earned 27.8 percent rate of return and fixed-income investments 19.4 percent.

Having said that, our investment focus is more on long-term performance than on one-year rates of return. Since we began to diversify the asset base in 1990, the total portfolio annualized rate of return has averaged 13.8 percent. After allowing for inflation, the real rate of return was 10.7 percent for the past four years. This compares favourably with our long-term performance target of 4.5 percent above inflation. This target should make it possible to maintain the current contribution rate of 8.9 percent of salary (7.3 percent on the portion integrated with the Canada Pension Plan).

It is important to note that a one percentage point variance in average long-term investment performance affects the pension plan's contribution rate by 20 to 25 percent over the long term. Currently, a teacher earning \$50,000 pays close to \$4,000 a year to the plan, with the Ontario government matching that amount. The cost to the plan of providing a \$35,000 indexed pension to a 35-year career teacher is about \$500,000. We anticipate that contributions from members and the government over the long term will meet about 25 percent to 30 percent of that pension, with the remainder coming from investment income earned by the plan. Investment performance is therefore vital to contribution rates and future pension income.

Corporate governance

Now that the plan is a significant shareholder in several major corporations, we must be attentive to exercising corporate ownership rights to maximize shareholder value for plan members.

Ownership rights are normally exerted through proxy voting. In 1993, we voted proxies in 293 Canadian public companies. Most proxies dealt with routine matters, such as the appointment of directors and auditors. 43 proxies solicited by management, or 15 percent of the total, conflicted with our guidelines. Most of these were executive compensation proposals, such as stock options that could dilute a company's common shares by as much as 10 percent, self-perpetuating share option plans, discounted share purchase prices, and interest-free loans. We normally oppose these proposals. With executive stock options, for example, our proxy guidelines require us to vote against proposals that dilute existing share values by more than five percent.

Social investment

A number of teachers have suggested the corporate governance policy be extended to social investment. The purpose would be to prohibit investment in companies that, in some people's perception, produce "socially unacceptable" products or behave unacceptably in terms of environmental conduct, labour relations, human rights, and other political and social matters.

The teachers' pension plan is not, in our view, a political pool of capital. Its 200,000 members hold

a wide spectrum of political and social beliefs, making the plan an inappropriate forum to reconcile divergent views. Furthermore, the board does not regard itself qualified to act as a "social conscience."

The plan exists solely to provide members with retirement income and related benefits. As the trustee, the pension plan board must meet targets of financial performance and actuarial funding soundness. A restrictive social investment policy would make that difficult and more expensive. Fiduciary duty requires us to resist suggestions to alter the plan's investment policy to advance the social or political ideology of some people at the expense of all plan members.

CUSTOMER SERVICES

We are making good progress in modernizing plan administration and improving customer services, although several administrative issues surfaced during 1993 that have implications for the plan.

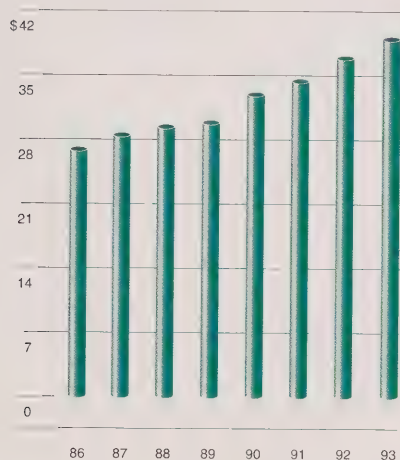
New pension administration system

Our most important initiative to modernize plan administration involves the introduction in 1993 of new computer technology. The new pension administration system provides our members with faster and better service.

We began by consolidating all information about our members into a single data base. In the past, members' addresses and birth dates, for example, were stored in more than one data base. Sometimes an address would be changed in one place

During the year, 3,300 teachers retired, bringing to 43,400 the number of pensioners and their survivors receiving benefits.

**AVERAGE 90-FACTOR PENSION
AT RETIREMENT**
(*\$ thousands*)

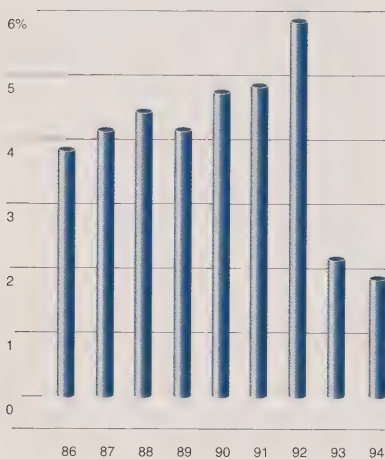


and not another, leading to correspondence being mailed to the wrong address. The new single data base allows us to store all information about each member in one place, eliminating duplicated and conflicting data.

In addition, we now electronically store an image of members' correspondence or certificates on our computer, which means that most information relevant to a member's inquiry is now on line and readily accessible. When we want to review a member's letter or application, we can instantly call up a copy on our computer screen. This step alone has shortened the time it takes to serve our members. In the past, we had to request the member's file from a central location, perhaps receiving it the next day. And only one person at a time could have the file; now all staff who need access to the information can see it at the same time.

Finally, we developed new computer software to determine eligibility and to calculate benefits; many of these tasks were performed manually in the past. This "intelligent" computer system has been programmed to capture the plan rules, ensuring consistent and accurate benefits for all members.

The latest pension estimates and retirement statements were the first tangible output of the new system. Members now receive customized letters about their benefits instead of form letters. In 1994, we will continue to upgrade the applications of the new pension administration system.

PENSION INFLATION INCREASES*(effective January 1)*

The 30,000 teachers who applied have until the end of 1994 to complete payments.

Effect of the social contract

Many teachers contacted us in 1993 to find out what impact the government's social contract might have on their future pension benefits. We prepared special pension estimates for various boards of education and in some cases dispatched staff to brief them.

The three-year salary freeze under the social contract will affect the benefits of members expecting to retire in the next eight years. The average of the best five years' salary is one of the factors used to determine the annual pension; teachers normally earn their highest salary just before retirement. However, the salary freeze should not have as much impact as it would have previously because wages and salaries in Ontario are expected to remain relatively stable during a period of economic weakness, fiscal restraint and low inflation.

We anticipate an increase in pension applications during 1994 as a direct result of early retirement incentives offered by school boards under the social contract. Currently, about 4,500 teachers have already reached the 90 factor and are eligible for an unreduced pension.

Credited service buy-back program

In last year's annual report, we discussed the tremendous response by teachers to a program permitting them to buy credited service for time away from the classroom prior to 1992. The 30,000 teachers who applied have until the end of 1994 to complete payments.

In 1993, Revenue Canada ruled that purchases of credit for breaks in service, teaching outside

About 4,500 teachers have already reached the 90 factor and are eligible for an unreduced pension.

CUSTOMER SERVICE EXPENSES

(\$ millions)	1993	1992
Salaries and benefits	\$12.1	\$12.6
Premises and equipment	7.7	5.3
Professional consulting services	2.3	2.8
Communication and travel	1.3	1.8
Stationery and supplies	0.3	0.4
All other	0.5	0.4
	\$24.2	\$23.3

INVESTMENT EXPENSES

(\$ millions)	1993	1992
Salaries and benefits	\$ 7.0	\$ 5.0
Investment management fees	5.7	4.4
Custodial and banking fees	3.1	2.0
Premises and equipment	2.0	1.0
Professional consulting services	0.8	0.9
Publications and regulatory fees	0.6	0.4
Communication and travel	0.5	0.3
All other	0.4	0.2
	\$20.1	\$14.2

Canada or employment in business and industry were ineligible under the *Income Tax Act*. This would have reduced the opportunities for many teachers to buy past pension credits approved before 1992. We contested the ruling as we believed exceptions allowed until now should remain in effect until 1994. Following extensive discussions, Revenue Canada agreed to allow the purchases to continue until the end of 1994.

Rights of occasional teachers

For some time, we have disputed the right of occasional teachers to purchase pension credits for breaks in service. However, our position has not been supported by the courts, and in February, 1994 the Supreme Court of Canada refused to hear our appeal of lower court rulings. As a result, we are now preparing a special program to facilitate the processing of applications by eligible supply teachers. This program will be implemented during 1994. The potential cost of these additional benefits has not been taken into account in determining contribution rates.

OPERATING COSTS

The teachers' pension board is one of the few pension administrators that provides services directly to its members rather than through their employers. This means that the cost of providing this service is paid by the pension plan and not by school boards or the provincial government.

Our operating costs derive from two core businesses – the provision of customer services and the management of investments. Overhead costs are apportioned between these principal activities.

One objective in 1993 was to stabilize customer service costs. On the other hand, we knew that as investment activities continued to expand, related expenses would continue to increase. On a combined basis, operating costs rose by 18 percent in 1993 to \$44.3 million, compared with \$37.5 million in 1992.

Costs relating to customer services were \$24.2 million, compared with \$23.3 million in 1992 for a 3.9 percent increase. Depreciation on the new pension administration computer system rose, as did our office rent at the mid-term of a 10-year lease. These two items accounted for the bulk of the increase. On a per member basis, customer services costs were \$118 in 1993, compared with \$115 in 1992.

Costs associated with investments rose as expected by \$5.9 million or 41.5 percent to \$20.1 million in 1993 from \$14.2 million the previous year. Contributing to the increase were the costs of continued asset diversification into equities, including expenses for external fund managers, custodial services, and additional staff specialists. These cost components are listed in the table on the previous page.

A standard cost measure in the investment community is to relate investment expenses to the value of assets being managed. In 1993, our investment costs were 6.6 cents for each \$100 of assets, compared to 5.7 cents in 1992. The 1992 average cost of investment services among the major North American pension funds was close to 16 cents per \$100 of assets. Canadian pension funds averaged 31 cents, whereas equity mutual funds cost about \$2.00.

Total investment costs will continue to rise as the asset mix is diversified further into equities. Equities are more expensive to manage than fixed-income securities but generate higher long-term returns, therefore, justifying the higher costs. We forecast that investment expenses will represent about 8 cents of every \$100 of assets in 1994.

OUTLOOK

The plan's asset mix will reach the target of two-thirds equities and one-third fixed-income securities before the end of 1995. As we increase the proportion of equities in the portfolio, we should get higher rates of return over the long term, but greater fluctuations from year to year. In 1993, stock markets rose to record highs, producing exceptional returns. Many observers expect North American markets to experience a correction in the next year or two. Should this occur, equity returns will be less robust.

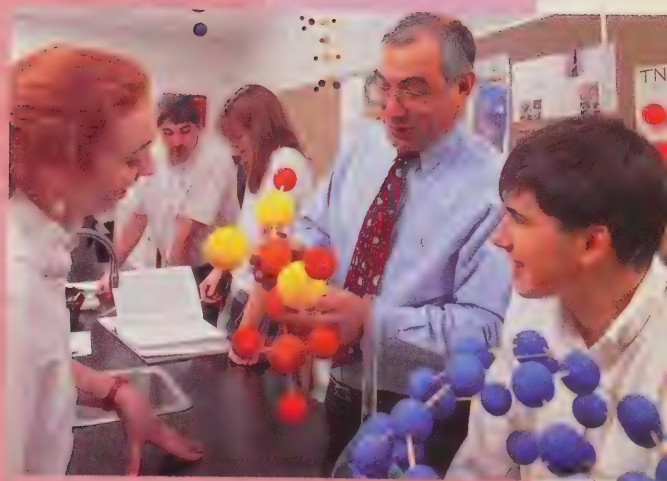
In terms of customer services, we want to make sure that the teachers' pension plan is among the most modern and efficiently managed funds in the world. Our commitment to quality service will be more evident in 1994 as the new pension administration system fulfills its potential.



Claude Lamoureux

President and Chief Executive Officer

March 24, 1994



*Al Orlando, Head of Science, teaches chemistry
at St. Joseph-Scollard Hall in North Bay.*

This section of the Annual Report offers a detailed discussion of financial material to assist stakeholders in viewing the pension plan's performance and financial position through the eyes of management.

ECONOMIC PERSPECTIVE

Economic growth and falling interest rates set the stage for generally strong global investment markets in 1993. Lower inflation allowed interest rates to decline and bond prices to rise in Canada and other major markets. With 54 percent of our investments in fixed-income securities, we benefited from this experience. At the same time, rising stock markets in Canada, the United States and overseas enhanced equity values, which at year end represented 46 percent of our total investments.

Four national or regional economies were relevant to our performance – Canada, where we have most of our assets invested, the United States, Europe and the Far East.

Canada's economy grew by 2.4 percent in 1993, more than triple the 1992 pace, with inflation remaining low at 1.7 percent. Higher export sales and business investment spending spurred gross domestic product growth, although high unemployment, high government deficits, and slow income growth were concerns.

The U.S. economy continued to expand, rising by 2.8 percent following a 2.6 percent improvement in 1992. Low interest rates, higher consumer spending and higher business investment fuelled the growth. Inflation eased to 2.7 percent, reflect-

ing weak prices for oil and other commodities.

In Europe, the United Kingdom emerged from two years of recession to post 2.0 percent growth. However, the German, French and Italian economies entered a recession after several years of anemic growth. The mixed performance in Europe was accompanied by lower inflation brought on by high unemployment and slower wage increases.

In the Far East, the Japanese economy slid into recession after four years of slowing growth, a belated response to the collapse of the investment and stock speculation boom in the late 1980s. The current recession was triggered by falling investment and industrial production. Other Far East economies, such as Singapore, Thailand, Malaysia and Hong Kong, continued to grow rapidly.

INVESTMENT POLICY

The pension board manages the plan's investments to earn the best possible rate of return so that increases in contribution rates are avoided and members receive the retirement benefits promised. Our investment policy is expressed in a document entitled *Statement of Investment Policy and Goals*. The document is reviewed annually by the board of directors and filed with the Pension Commission of Ontario.

Investment goal and asset mix

Our objective is to earn an annual rate of return of 4.5 percent above inflation on a four-year moving average. This objective assumes an asset mix of

The pension board manages the plan's investments to earn the best possible rate of return so that increases in contribution rates are avoided.

1993 ASSET MIX

(\$ billions at December 31, 1993)



Real Estate	\$ 0.6
Private Placements	0.2
Non-North American Equities	4.4
U.S. Equities	2.6
Canadian Equities	7.3
Index-linked Bonds & Mortgages	0.6
Bonds	0.6
Money Market Securities	1.3
Ontario Debentures	15.7
Total	\$ 33.3

two-thirds equities and one-third fixed-income securities. Our studies show that such a portfolio has a high probability of keeping the fund in a sound financial position over the long term – and the long term is our investment focus.

At the end of 1993, equities represented 46 percent of the asset mix, compared with 26 percent in 1992. We expect to reach the two-thirds equities/one-third fixed income asset mix target before the end of 1995.

To meet the plan's performance and diversification targets, we invest in a wide range of assets, principally stocks and bonds. Our investment universe is global.

Risk management

The pension plan faces several risks because of its structure and because of investment market realities.

For example, at the start of 1990, the plan was acutely exposed to inflation when non-marketable Ontario debentures were the only assets. Inflation promotes higher interest rates, which reduce the market values of such fixed-income securities. While inflation has abated in the past three years, it remains a serious long-term risk because the pension benefits paid to teachers are indexed for cost-of-living changes. Managing this risk is an important priority, especially as the debentures continue to dominate the plan's assets and will mature over the next 18 years.

The plan faces risks associated with our strategy of diversifying into equities. One, of course, is the

inherent volatility of stock markets. New peaks were achieved by many leading markets in 1993 and corrections are inevitable, as are occasional negative returns. The historic long-term performance of corporate shares, however, outweighs the risks of short-term cycles.

Another challenge for the teachers' pension plan is that we have about \$2.6 billion of new funds available annually for equity purchases. The Canadian stock market is our primary venue. However, it is quite small, representing only three percent of global markets. A further market restraint is the fact that the shares of most leading Canadian corporations are closely owned, which means a limited number of shares is available to the public. This causes difficulties for large investors seeking equity opportunities.

How we manage these risks is discussed in the remainder of this subsection.

Matching assets to liabilities

Teachers' pensions are linked to the Consumer Price Index to a maximum inflation adjustment of eight percent in a single year, with any excess carried forward. Consequently, our investment policy must meet our obligations.

We attempt to match long-term liabilities with suitable long-term assets. Our investment time frame spans several decades. During that time, unanticipated inflation can be expected to recur, reducing the value of assets available to meet future pension commitments. To offset the risk of liabilities rising and asset values declining, we

invest part of new funds in assets that historically have responded well to unanticipated inflation, such as real-rate bonds, index-linked mortgages, and income-producing real estate properties.

The use of derivatives

Without derivatives, the plan's assets would have high exposure to interest rate volatility because of the dominance of the large debenture portfolio. A one percent increase in long-term interest rates would decrease the market value of these debentures by 7 percent on average. It is essential, therefore, to reduce our exposure to interest rate fluctuations.

The huge global market for derivatives enables us to do that. We exchange the fixed-rate interest income from debentures for floating-rate income, using interest rate swaps. This floating-rate income is then exchanged for equity income using equity swaps.

By year end, our use of derivatives had reduced the impact of a one percent increase in interest rates to a 5.9 percent decrease in debenture values.

Diversifying into equities

Derivatives are an efficient and cost-effective way to shift the asset mix into equities without waiting for the non-marketable debentures to mature. There is no capital risk because we retain ownership of the underlying debentures; we swap only the interest from the debentures, not the principal.



*Warren Snyder, Parkfield Junior School
Etobicoke, takes his grade five class skating.*

This accelerated expansion into equities through derivative securities enhances the plan's long-term returns, increasing the security of future pension benefits. This is important because teachers, who typically retire at age 58, live on pension for an average of 25 years.

Approximately 26 percent of our \$14.5 billion equity portfolio was in the form of swaps compared with about 11 percent of the \$6.5 billion equity portfolio in 1992.

For further details on our investments in derivative contracts, please see note 2 on page 43 of the financial statements.

Managing cash flow

We receive substantial cash on a continuing basis from investment income as well as from the contributions of plan members and the government. Net of pension payments and operating costs, we had a positive net cash flow of \$2.6 billion available for investments in 1993. Our policy is to maintain approximately two percent of assets in highly liquid investments for transactions.

Our goal is to put cash flow to productive use as quickly as possible. With equity investment our most urgent asset mix priority, we have emphasized the buying of shares in companies included in leading stock indices, such as the TSE 300 on the Toronto Stock Exchange, the S&P 500 on the New York Stock Exchange, and the international index known as EAFE (Europe, Australia and the Far East). Buying index funds is an efficient way

to enter stock markets by acquiring large and balanced portfolios of shares in corporations that are established in a wide spectrum of industries and economic regions.

We also select the shares of individual Canadian and overseas companies for active management. Based on extensive research, we identify undervalued companies that should produce above-average long-term rates of return.

By the end of 1993, the equity portfolio included \$10.6 billion in index funds, compared with \$4.1 billion a year earlier, and \$3.7 billion in actively managed stocks, compared with \$2.2 billion in 1992.

Actively managed equities also include ownership of income-producing real estate, such as shopping centres and office properties, and investments in privately owned business enterprises. These two categories should also generate above-average returns over the long term, although together they represent less than 3 percent of total investments at \$0.8 billion.

Diversifying into other fixed-income securities

We have also diversified fixed-income investments from the original portfolio of non-marketable debentures into government bonds, index-linked bonds and mortgages, treasury bills and other money market instruments, in addition to interest-rate bearing derivative contracts. These active and tradable investments totalled \$2.5 billion at year end.

Teachers, who typically retire at age 58, live on pension for an average of 25 years.

RATES OF RETURN BY ASSET CLASS

(%)	1993	1992
Ontario debentures	20.6	11.0
Money market securities	5.9	7.7
Canadian bonds	14.1	10.5
Mortgages	19.0	10.0
Canadian equities	28.6	(2.5)
U.S. equities	13.4	18.8
Non-North American equities	40.7	7.6
Private placements	34.5	8.1
Real estate	(0.8)	2.6
Total portfolio	21.7	8.9

RATES OF RETURN COMPARED TO BENCHMARK

(%)	1993	Benchmark
Ontario debentures	20.6	17.1
Money market securities	5.9	5.5
Canadian bonds	14.1	17.1
Mortgages	19.0	6.2
Canadian equities	28.6	32.6
U.S. equities	13.4	14.7
Non-North American equities	40.7	37.9
Private placements	34.5	34.6
Real estate	(0.8)	(5.3)
Total portfolio	21.7	21.5

Diversifying into global markets

Part of our risk management involves diversification of the asset base from total dependency on the Canadian economy to take advantage of different regional economies throughout the world. Being exposed to several economies reduces portfolio volatility.

INVESTMENT PERFORMANCE

The board of directors approves annual benchmarks for each portfolio and measures year-end results against these external targets. The performance of our portfolios relative to benchmarks is shown on this page.

On a market-value basis, the pension plan registered a 21.7 percent rate of return in 1993. This compared with the weighted benchmark return of 21.5 percent.

After removing the effects of inflation, the real rate of return in 1993 was 20 percent. On a four-year basis, the plan's performance of 13.8 percent exceeded the rate of inflation by 10.7 percent. This compares favourably with our goal of exceeding inflation by 4.5 percent on a four-year moving average, and with the four-year benchmark rate of return of 7.6 percent.

EQUITY INVESTMENTS

Investments in equities, including the impact of derivative contracts, totalled \$15.1 billion, or 46 percent of all investments in 1993, compared with \$6.9 billion, or 26 percent of all investments, in 1992.

EQUITY PORTFOLIO*(at December 31, 1993)*

The rate of return on total equities was 27.8 percent in 1993, compared with the benchmark return of 25.7 percent in 1993.

Canadian equities

The Canadian equity portfolio grew from \$3.2 billion in 1992 to \$7.3 billion in 1993, representing 22 percent of total investments. The growth reflected \$3 billion of new investments and \$1.1 billion in market appreciation.

Our Canadian equity portfolio achieved a rate of return of 28.6 percent in 1993. The TSE 300 index registered a 32.6 percent gain in 1993. Our weaker performance reflected an underweighting of gold and energy stocks, which drove the TSE index to record levels.

CANADIAN EQUITIES BY SECTOR*(at December 31, 1993)***U.S. equities**

In 1993, we completed the program started in the previous year of divesting direct ownership of U.S. stocks and acquiring swap positions in the Standard & Poor 500 index. This conversion increased our effective U.S. equity exposure to 7.8 percent of total investments at the end of 1993, compared with 4.2 percent in 1992. The rate of return on this portfolio was 13.4 percent for 1993 compared with 14.7 percent for the benchmark.

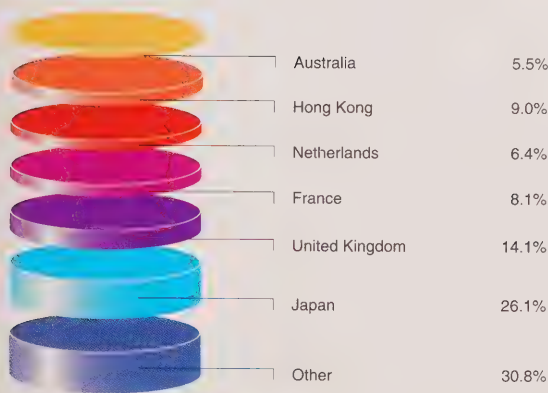
Non-North American equities

The international equity portfolio grew from \$2.2 billion in 1992 to more than \$4.4 billion in 1993. Japanese equities represented 26 percent of this portfolio and United Kingdom 14 percent with

The Canadian equity portfolio grew from \$3.2 billion in 1992 to \$7.3 billion in 1993.

Because our liabilities are indexed for cost-of-living increases, future inflation is a serious concern.

**NON-NORTH AMERICAN
EQUITIES BY COUNTRY**
(at December 31, 1993)



Hong Kong equities comprising 9 percent. More than half of this portfolio is invested in index funds with the remainder under active management.

Our non-North American portfolio earned a 40.7 percent rate of return in 1993, compared with 37.9 for the benchmark. The EAFE index, which consists of 1,800 stocks in 22 countries, moved ahead 38 percent in 1993 as European and Japanese investors reacted to lower interest rates as well as anticipated improvements in the global economy and corporate earnings in 1994 and 1995. We outperformed the EAFE index due to the superior returns earned by our actively-managed international equities.

Real estate

Because our liabilities are indexed for cost-of-living increases, future inflation is a serious concern. Ownership of real estate properties helps to provide a long-term hedge against inflation. Our strategy is to buy a co-ownership position, usually 50 percent, in quality properties. The free fall of Canadian property values since 1990 presented timely opportunities to acquire Class A shopping centres and office properties.

We entered the market in October 1991 and have assembled a \$608 million portfolio of nine regional shopping centres in British Columbia, Alberta, Saskatchewan and Ontario; three office towers in downtown Vancouver and a twin-building office complex in downtown Toronto; and a few industrial properties in mature business parks. Four shopping centres were acquired in 1993 and

a fifth in early 1994. The portfolio's five million square feet of leasable area is almost fully occupied.

By the end of 1993, real estate generated annualized cash flow of \$47 million, compared with \$29 million a year earlier. The market value of these assets fell by 6.1 percent during 1993 as property values continued to decline. We believe the values of shopping centres have bottomed and office properties are stabilizing.

The rate of return on our real estate holdings for 1993 was a negative 0.8 percent. We outperformed the Russell Canadian Property Index, which fell 5.3 percent in 1993, because we have been emphasizing the acquisition of shopping centres rather than office properties. We expect our portfolio to perform well over the next 10 to 15 years as commercial real estate enters its next growth cycle.

At the end of 1993, 1.8 percent of total investments were real estate properties. Our asset mix policy allows for property ownership to represent up to 10 percent of total assets.

Private placement equities

Our private placement portfolio is one of Canada's largest active pools in assisting growth companies to fulfill their potential in terms of financial stability, product development, competitive market share, and job creation.

We invest in established companies, not start-up ventures, and look for businesses that have proven operations with significant management ownership. We prefer firms that produce value-

added products and services, are market share leaders, have a low threat of product or service substitution, and can sustain competitive advantages.

Recent investments include Brights Wines, Canada's largest winery, which merged with the Cartier & Inniskillin Vintners late in 1993; Alliance Communications Corporation, a producer and distributor of Canadian feature films and TV series; McDonnell Douglas Information Systems Group; the consumer products division of British Petroleum in the U.K.; and Pelmorex Communications Inc., which established the Weather Network. Alliance Communications and two firms acquired in 1992, White Rose Crafts & Nurseries and ATS Automation Tooling Systems Inc. (a producer of automated manufacturing systems), became public companies in 1993.

Our strategic relationships with merchant banks, brokerage houses, and managed funds in Canada, the United States and Europe also enable us to invest in growth businesses on a pooled basis with other institutions.

At the end of 1993, we had invested \$240 million in this portfolio, representing 0.7 percent of total investments. The 34.5 percent rate of return was up substantially as we realized returns from public issues in some investments. Our objective for private investments is to exceed the performance of the TSE 300 index by two percent.

FIXED INCOME INVESTMENTS

Investments in fixed-income securities, including derivative contracts, were \$18.1 billion, or 54

*We invest in established companies, not
start-up ventures.*

ONTARIO DEBENTURES* (at December 31, 1993)

Maturity date	Interest Rate (%)	Market Value (\$ billions)
1994–1998	7%–17%	\$1.4
1999–2003	8%–14%	\$4.7
2004–2008	10%–16%	\$8.3
2009–2012	10%–12%	\$4.9

*Excludes derivative contracts.

percent of total investments at the end of 1993. This compared with \$19.5 billion, or 74 percent of total investments, a year earlier.

The rate of return on fixed-income investments in 1993 was 19.4 percent. The benchmark for the Province of Ontario debentures and the marketable bonds is the Scotia McLeod Canada bond index. The return of this index was 17.1 percent in 1993. Over the four years from 1990 to 1993, the fixed income annual rate of return has averaged 13.8 percent, compared with the benchmark of 13.6 percent.

Non-marketable debentures

At \$15.7 billion, Ontario debentures were 47 percent of total investments, compared with 65 percent share a year earlier. The reduction reflected maturing debentures and the use of derivative contracts, offset by an appreciation in market values. In 1993, \$239 million of debentures matured, compared with \$498 million in the prior year.

While the debentures cannot be sold, we determine their market value by discounting their future cash flow at the yield that could be obtained from comparable Ontario bonds. Within the next 10 years, 31 percent of the debentures will mature, leaving a large exposure to fluctuations in long-term interest rates. As discussed earlier, we minimize risk by converting fixed-rate interest coupons into floating-rate contracts and equity equivalents.

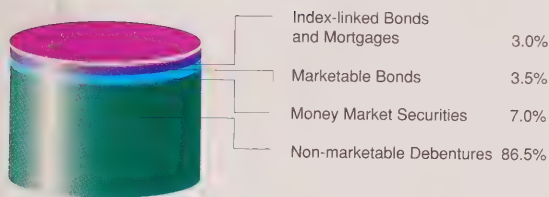
The 1993 rate of return on the debenture port-



*Karen Ann McArthur helps senior students
with research in the library at St. Joseph-
Scollard Hall, North Bay.*

FIXED INCOME PORTFOLIO

(at December 31, 1993)



folio was 20.6 percent. The annual rate of return averaged 14 percent over the past four years.

Marketable bonds

Marketable bonds totalled \$634 million, compared with \$586 million in 1992. The bond portfolio, which represents approximately 2.0 percent of total investments, consists largely of Government of Canada bonds, although we diversified into foreign government bonds in 1993.

For 1993, the rate of return for the marketable bond portfolio was 14.1 percent. Our marketable bond portfolio underperformed the Scotia McLeod Canada bond index.

Real-rate bonds and index-linked mortgages

The plan owned \$448 million of real-rate Canada bonds, with a real rate of return of 4.75 percent, and \$100 million of index-linked mortgages. The return on this asset class was 19 percent in 1993. These investments are completely risk free in respect of inflation.

Money market securities

At year end, money market securities totalled \$1.3 billion, the same level as in 1992. Approximately three-quarters of these securities are Canadian treasury bills, with the remainder invested in Canadian and U.S. bank deposits. The return on this portfolio was 5.9 percent for 1993.

INCREASE IN NET ASSETS

The plan began 1993 with net assets available for

benefits of \$27.8 billion. During the year, net assets increased by \$5.9 billion to \$33.7 billion at year end. In 1993, \$2.6 billion of new money was available for investment, compared with \$2.9 billion in 1992. These funds came from two principal sources:

- Realized investment income, which totalled \$1.9 billion in 1993, the same as in 1992.
- The contributions of plan members and the Ontario government. These totalled \$1.4 billion, compared with \$1.9 billion a year earlier. Regular contributions increased by 1.7 percent, reflecting the higher salaries being received by members, a change of part-time teachers to full-time positions, and settlement of pay equity agreements by a number of employers.

Since 1990, the government has also made special payments toward the eventual elimination of the plan's unfunded liability. This is discussed in the following section on Funding Valuations. The government made \$342 million in special payments in 1993; however, these were returned to the government at the end of the year with interest as part of the social contract agreement between the OTF and the government. The government is scheduled to restart the special payments in August 1996.

Three principal categories of expenditures were incurred:

- Payments to pensioners, which increased to \$973 million, compared with \$893 million in 1992. The increase included a 2.1 percent cost-of-living adjustment. During the year, 3,300

teachers retired, bringing to 43,400 the number of pensioners and their survivors receiving benefits.

- Refunds of contributions and the transfer of benefits to and from other pension plans, representing a net outflow of \$2 million, compared with a net inflow of \$9 million a year earlier.
- The operating expenses of the board rose to \$44.3 million from \$37.5 million in 1992. Costs associated with customer services represented \$24.2 million, a 4 percent increase from the prior year. Investment expenses totalled \$20.1 million as we continued to hire investment specialists and the volume of investment transactions escalated, generating increased payments for external management and custodial services.

ACTUARIAL VALUATIONS

Two different valuations are important to determining the accrued pension benefits and funding requirements of the teachers' pension plan – the annual “best estimate” valuation and the periodic funding valuation.

Best estimate valuation

The annual “best estimate” valuation compares the plan's assets with the accrued benefits earned by members at the latest year end. This valuation is prepared by William M. Mercer Limited, an independent actuarial firm, using management's

best estimate assumptions of future salary escalation rates, inflation rates, investment rates of return, and other non-economic factors. The following table illustrates key long-term economic assumptions, and how they changed from the 1992 to 1993 year ends.

<i>(at December 31)</i>	1993	1992
<i>Rates of return on investment</i>		
Until 2000	8.75%	9.50%
Thereafter	8.75%	9.00%
<i>Salary escalation rates</i>	5.00%	5.25%
<i>Inflation rates</i>	4.00%	4.25%

At December 31, 1993, the plan's best estimate deficiency was \$3.2 billion, or 9.5 percent of accrued pension benefits. This compared with a deficiency of \$3.4 billion, or 11.1 percent of accrued pension benefits, a year earlier. The reduction in the plan's deficiency during 1993 was due mainly to positive investment returns.

Funding valuations

The *Pension Benefits Act* requires a periodic funding valuation at least every three years to ensure that the plan will have sufficient funds to pay pension benefits as they come due.

The initial valuation on January 1, 1990 disclosed a deficiency of \$7.8 billion. The province agreed to pay this amount in a series of special payments by 2030. In the years 1990, 1991 and 1992, the plan received \$895 million in special payments from the province.

On January 1, 1993, a valuation was prepared

by William M. Mercer, taking into account current economic realities and revised assumptions about the future, such as lower interest and inflation rates. The following table shows the key economic assumptions and how they have changed during the intervening three years.

<i>(at January 1)</i>	1993	1990
<i>Rates of return on investment</i>	8.00%	8.50%
<i>Salary escalation rates</i>		
1993 and 1994	2.00%	5.75%
Thereafter	5.00%	5.75%
<i>Inflation rates</i>		
1993 and 1994	2.00%	4.50%
Thereafter	4.00%	4.50%

Because of the changes in the economic assumptions and experience gains realized in the years 1990 to 1992, the January 1, 1993 valuation revealed that the plan had an actuarial gain of \$1.5 billion over this period. Under an agreement between the province and the Ontario Teachers' Federation, the province will use \$1.2 billion of the gain by applying this amount to its special payments due during the period from January 1993 to July 1996. The remaining \$325 million will reduce other scheduled payments from the province in 1994 and 1995.

The province will recommence making special contributions in August 1996. The deficiency will rise to an estimated peak of \$13.3 billion by 2013, before declining and being eliminated as originally scheduled by 2030. The increase in the dollar value of the deficiency will be substantially less than the

expected growth in liabilities and members' payroll over the next 20 years. The deficiency, even in the peak year of 2013, will be a lower percentage of both total liabilities and members' payroll than is the case today.

Reconciling the best estimate and funding valuations

There are fundamental differences between the best estimate and funding valuations. The best estimate valuation, for example, does not take into consideration future benefits and contributions whereas the funding valuation does. The other significant difference is evident in the estimate of the rate of return that the plan will earn on its investments. The best estimate valuation assumes an 8.75% long-term rate of return compared with 8.00% under the funding valuation which is inherently more conservative.

The deficiencies estimated by the best estimate and funding valuations are only projections. They will change based on both the plan's experience and the response of assumptions to future events. The valuations provide two perspectives of the plan's long-term financial condition so that appropriate adjustments can be made to ensure that investment income and contributions provide the retirement income expected.

PRESENT VALUE OF THE GOVERNMENT'S SPECIAL PAYMENTS

(\$ billions)



*Equity investments should represent more than
half of total assets by the end of 1994.*

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OUTLOOK

We anticipate renewed economic growth in North America during 1994, with slower recovery in Europe and Japan, and more rapid growth in developing economies.

The Canadian economy could grow by 3 to 3.5 percent as employment improves and consumer income and spending both rise. Inflation should remain low at around 1.5 percent. The U.S. economy will likely expand by about 3 percent with inflation in the 2.5 to 3 percent range. In Europe, the U.K. should experience stronger growth, although continental economies are expected to remain sluggish. In the Far East, little or no growth is projected for Japan as both business investment and industrial production are expected to decline for the third consecutive year.

With approximately \$3 billion of new funds expected for investment in 1994, we will continue to pursue portfolio diversification in these markets and will examine the emerging economies in South America, Africa, the Mid East and the Far East, where projected growth is much stronger.

Equity investments should represent more than half of total assets by the end of 1994.

Derivative contracts will continue to be used to manage portfolio risk and facilitate the conversion of fixed-income returns into equity returns.

Our long-range challenge remains one of investing available funds effectively so that the portfolio can provide pensions to plan members at a reasonable cost.



Richard Henderson teaches grades four and five at Wells Street Public School, Aurora.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

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The financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgements. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the Plan administrator. In addition, the committee reviews the recommendations of the internal and external Auditors for improvements in internal control and the action of management to implement such rec-

ommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the Board.

The Plan's external auditors, Deloitte & Touche, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.



Claude Lamoureux

President and

Chief Executive Officer



Ralph Barnes

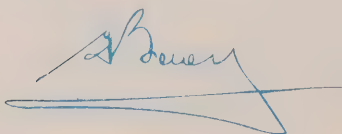
Vice-President, Finance

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY

as at December 31, 1993

(\$ Millions)	1993	1992
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 2)	\$33,270	\$26,385
Receivable from Province of Ontario (note 3)	1,362	1,323
Receivable from brokers	—	43
Cash	32	24
Fixed assets	4	5
	34,668	27,780
Liabilities		
Payable to Province of Ontario (note 6)	325	—
Payable to brokers	605	—
Accounts payable and accrued liabilities	27	7
	957	7
Net assets available for benefits	33,711	27,773
Actuarial asset value adjustment (note 4)	(2,947)	(414)
Actuarial value of net assets available for benefits	\$30,764	\$27,359
ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits	\$33,998	\$30,781
Deficiency	(3,234)	(3,422)
Accrued pension benefits and deficiency	\$30,764	\$27,359

On behalf of the Board:



Chairperson



Board Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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for the year ended December 31, 1993

(\$ Millions)	1993	1992
Investment Operations		
Investment income (note 5)	\$ 5,907	\$ 2,145
Investment expenses (note 9)	(20)	(14)
Net investment operations	5,887	2,131
Customer Service Operations		
Contributions (note 7)	1,401	1,889
Benefits (note 8)	(1,001)	(921)
Customer service expenses (note 9)	(24)	(23)
Net customer service operations	376	945
Other		
Distribution of actuarial gain (note 6)	(325)	—
Increase in net assets	5,938	3,076
Net assets available for benefits, beginning of year	27,773	24,697
Net assets available for benefits, end of year	\$33,711	\$27,773

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

for the year ended December 31, 1993

(\$ Millions)	1993	1992
Increase in Accrued Pension Benefits		
Interest accrued on benefits	\$ 2,943	\$ 2,845
Benefits earned	1,170	1,188
Changes in actuarial assumptions (note 4)	733	606
Increase in accrued pension benefits	4,846	4,639
Decrease in Accrued Pension Benefits		
Benefits paid (note 8)	983	904
Experience gains (note 4)	646	433
Decrease in accrued pension benefits	1,629	1,337
Net increase in accrued pension benefits	3,217	3,302
Accrued pension benefits, beginning of year	30,781	27,479
Accrued pension benefits, end of year	\$33,998	\$30,781

STATEMENT OF CHANGES IN DEFICIENCY

for the year ended December 31, 1993

(\$ Millions)	1993	1992
Deficiency, beginning of year	\$(3,422)	\$(3,665)
Net increase in net assets available for benefits	5,938	3,076
Net increase in accrued pension benefits	(3,217)	(3,302)
Change in actuarial asset value adjustment (note 4)	(2,533)	469
Deficiency, end of year	\$(3,234)	\$(3,422)

NOTES TO FINANCIAL STATEMENTS

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for the year ended December 31, 1993

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the Teachers' Pension Act (the Act) as amended.

(a) General

The Plan is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The Plan is registered with the Pension Commission of Ontario (registration number C008450).

(b) Funding

Plan benefits are funded by contributions and investment earnings. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (see note 6).

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced pension is available at age 65 or at any age if the sum of a member's age and qualifying service equals 90.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of a survivor pension, a lump sum payment or both.

(f) Additional credited service

Members can obtain additional credited service in the Plan for certain absences or transfers from other plans.

(g) Withdrawals from the Plan

Subject to the lock-in provisions, withdrawal refunds, transfers and commuted value transfers are available when a member ceases to be employed in education.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

(h) Income taxes

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and, consequently, is not subject to income taxes. The Plan's registration number is 0345785.

(i) Escalation of benefits

Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements present the financial position and operations of the Plan and are prepared in accordance with generally accepted accounting principles.

(b) Investments

Investments are recorded as of the trade date and are stated at market value.

Province of Ontario Debentures (the Debentures), which are not marketable, are stated at estimated market values calculated by discounting the Debenture cash flows based on year-end market yields of comparable securities. Money market securities are carried at amortized cost, which approximates market value. Publicly traded bonds and equity securities are valued at year-end market prices. Other investments for which market quotations are not available such as real estate, mortgages and private placements are valued on a current market yield or appraised basis.

Interest and dividend income has been accrued to the year-end date.

The change in the difference between market value and the cost of investments at the beginning and end of each year represents the unrealized gain and is included in investment income.

(c) Derivative Contracts

Interest rate and foreign currency futures, options, swaps and debt to equity derivative contracts are recorded at market value with the resulting gain or loss being recognized in unrealized investment income.

Gains or losses on interest rate and foreign currency futures, options, swaps and debt to equity derivative contracts sold or closed out during the year are included in realized investment income.

(d) Accrued pension benefits

Accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by William M. Mercer Limited, a firm of independent actuaries. The valuation is made as at the start of the year and then extrapolated to year end. It uses the projected benefit method prorated on service and management's best estimate of future economic events (see note 4).

(e) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(f) Contributions and Benefits

Contributions are recorded on the accrual basis except for special payments from the Province which are recorded in the year in which they are received (see note 6).

Benefits are recorded on the accrual basis.

2. INVESTMENTS

The investment objectives of the Plan are to maximize investment returns and to protect the pension benefits of the Plan members. The strategy employed to achieve these objectives is to invest cash flow from contributions, maturing Debentures and investment returns into a diversified pool of assets such as Canadian and foreign equities, money market securities, government bonds and real estate.

Until January 1, 1990, the Plan had been restricted to investing in non-marketable Debentures which must be held to maturity. The Plan's investment in these Debentures, amounting to \$19.4 billion (1992 – \$17.9 billion), has interest rates and a maturity profile that exposes the Plan to significant market value fluctuations. To manage this exposure in a manner consistent with the investment objectives, the Plan has used interest rate, foreign currency and equity futures, and interest rate and equity swaps and options (collectively called the derivative contracts) during the year. These derivative contracts allow the Plan to retain the non-marketable Debentures while achieving its objectives of increasing asset diversification and reducing interest rate risk. Through these derivative contracts, the investment returns from the Debentures are exchanged for returns equiv-

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

alent to those which would be earned by investing directly in money market and equity securities, as described in note 2b.

a) The schedule below summarizes the market value and cost of the Plan's investments as at December 31, 1993 and 1992:

(\$ Millions)	1993		1992	
	Market Value	Cost	Market Value	Cost
Debentures	\$19,374	\$15,130	\$17,862	\$15,438
Money market securities	1,269	1,264	1,245	1,245
Bonds				
Canadian	793	708	969	961
Foreign	289	290	—	—
Mortgages	100	98	73	73
	21,825	17,490	20,149	17,717
Equities				
Canadian	7,374	6,272	3,217	3,310
Foreign	3,463	2,391	2,568	2,330
	10,837	8,663	5,785	5,640
Real estate	608	668	451	470
	\$33,270	\$26,821	\$26,385	\$23,827

Included above is accrued interest and dividends of \$457 million (1992 – \$493 million).

b) The schedule below summarizes the “notional” principal amounts of the derivative contracts outstanding at the year end. The principal amounts are termed notional because they are not usually exchanged themselves, but serve as the basis upon which the payments of returns and the market value of the contracts are determined. The main types of contracts used by the Plan are swaps and futures.

**Notional Principal of Outstanding Derivative Contracts
at December 31, 1993 and 1992:**

(\$ Millions)	1993	1992
Swap Contracts		
Fixed interest rate	\$(5,160)	\$(3,565)
Floating interest rate	1,452	2,880
Equity	3,708	685
	\$ —	\$ —
Futures Contracts		
Interest rate	\$(1,926)	\$(1,296)
Equity	—	60
Currency	—	104
	\$(1,926)	\$(1,132)
Options Contracts		
Interest rate	\$ 584	\$ (155)
Equity	(199)	—
	\$ 385	\$ (155)

i) Swap Contracts

Under swap contracts, the Plan agrees to pay a fixed rate of interest on a notional principal amount of Debentures and in return, the Plan receives income based upon the yield of an equivalent notional amount of money market securities or equities.

Swap contracts outstanding at December 31, 1993 have been used to convert the yield on a notional amount of Debentures of \$5.2 billion ("fixed interest rate swaps") into:

- i) the yield on a notional amount of \$1.5 billion of money market securities ("floating interest rate swaps"), and
- ii) the return based on a notional amount of \$3.7 billion of equity indices ("equity swaps").

ii) Futures Contracts

Futures contracts are agreements either to buy or to sell notional amounts of money market securities, bonds, equity securities or foreign currencies at predetermined

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

future dates and prices. As a result of entering into these contracts, returns are generated that are equivalent to the gain or loss that would arise if the securities or foreign currencies had been bought or sold directly at the future price. These contracts enable the Plan to change its exposure to the effects of changing interest rates on the Debentures, while retaining the Debentures themselves.

Interest rate futures contracts have been entered into to sell a notional amount of \$1.9 billion (1992 – \$1.3 billion) of fixed income securities which, together with the investment in Debentures, provide the Plan with returns based on short term interest rates and reduce the Plan's sensitivity to interest rate fluctuations.

iii) Option Contracts

Option contracts are agreements in which the right, but not the obligation, is acquired by the option purchaser from the option writer either to buy or sell on or within a specified time, a predetermined amount of a financial instrument at a stated price.

Option contracts permit the Plan, in exchange for money received or paid (the premium), to modify the exposure to changing interest rates or stock prices above or below a predetermined level. The Plan uses option contracts to either enhance the rate of return or to protect the Plan from losses.

c) The effective investment position of the Plan, after giving effect to the swap contracts on the Plan's investments, is as follows at December 31, 1993 and 1992:

	1993		1992	
	At Market Value (per Note 2a)	Effective Investment At Market Value	At Market Value (per Note 2a)	Effective Investment At Market Value
Fixed income	\$21,825	\$18,117	\$20,149	\$19,464
Equities				
Canadian	7,374	7,510	3,217	3,217
Foreign	3,463	7,035	2,568	3,253
Real estate	608	608	451	451
	\$33,270	\$33,270	\$26,385	\$26,385

3. RECEIVABLE FROM PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

(\$ Millions)	1993	1992
Contributions receivable	\$1,248	\$1,186
Accrued interest	114	137
	\$1,362	\$1,323

The receivable from the Province is expected to be collected as follows: \$719 million in 1994 and \$643 million in 1995.

4. ACCRUED PENSION BENEFITS

a) The actuarial assumptions used in determining accrued pension benefits reflect management's best estimate of expected long-term economic trends as follows:

	1993	1992
Rates of return on investment		
Until 2000	8.75%	9.50%
Thereafter	8.75%	9.00%
Salary escalation rates	5.00%	5.25%
Inflation rates	4.00%	4.25%

Changes to the actuarial assumptions increased the accrued pension benefits by \$733 million (1992 – \$606 million) primarily as a result of decreasing the asset rate of return assumption.

Experience gains of \$646 million (1992 – \$433 million) arose from differences between the actuarial assumptions and actual results during the current year and relate primarily to favourable experience for salary and inflation.

b) The actuarial value of net assets available for benefits is determined by reference to long-term market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the fund amortized over five years. Using this adjustment, market value remains the underlying basis for asset valuation, but fluctuations are averaged over a five year period.

The year over year change in the actuarial asset value adjustment is reflected in the Statement of Changes in Deficiency.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

5. INVESTMENT INCOME

(\$ Millions)	1993	1992
a) Interest income		
Debentures	\$1,494	\$1,701
Money market securities	69	62
Bonds		
Canadian	66	48
Foreign	3	4
Mortgages	8	4
	1,640	1,819
Dividend income		
Canadian equities	149	108
Foreign equities	68	35
	217	143
Real estate	43	18
	1,900	1,980
Gain on investments	4,007	165
	\$5,907	\$2,145

Interest income from debentures is net of interest incurred on swap contracts (see Note 2 b i). The 1992 figures have been reclassified to conform with this presentation.

Gain on investments for 1993 includes unrealized gains of \$3,971 million (1992 - \$206 million).

b) Investment income by asset class, after giving effect to the derivative contracts and allocating the realized and unrealized gains, is as follows:

(\$ Millions)	1993	1992
Fixed income	\$3,292	\$1,959
Canadian equities	1,325	(68)
Foreign equities	1,288	254
Real estate	2	—
	\$5,907	\$2,145

6. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding of the Plan. Active members are currently required to contribute 8.9 percent of their salaries to the Plan with matching contributions from the Province and other employers.

The assumptions and actuarial methods used to determine statutory pension benefits are different than those used to calculate the amount disclosed in these financial statements. Due to its conservative approach, the statutory valuation results in a higher estimate of accrued pension benefits and deficiency.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990, disclosed a deficiency of \$7.8 billion. This deficiency is the responsibility of the Province and is being paid off with interest by a series of special payments over the 40 year period which commenced January 1, 1990. A subsequent statutory valuation as at January 1, 1993, reflecting lower interest rates and inflation, disclosed an actuarial gain of \$1.5 billion over the three years since the initial valuation. The January 1, 1993 valuation shows a deficiency of \$6.9 billion, which is \$1.5 billion lower than the \$8.4 billion that was expected. Under the *Teachers' Pension Act* and by agreement with the Ontario Teachers' Federation, the Province exercised its right to apply the gain as follows:

- Commencing January 1, 1993, \$1.2 billion is to be applied to eliminate special payments until August 1996; special payments received by the Plan in 1993, amounting to \$342.4 million, were repaid to the Province along with interest of \$10.2 million; and
- \$325 million is to be applied to reduce other scheduled payments from the Province to the Plan in 1994 and 1995.

This means that the present value of the Province's special payments is \$7.2 billion (\$8.4 less \$1.2 billion) as at January 1, 1993. Since no special payments will be made until August 1996, the deficiency will grow at the assumed rate of 8.0 percent until that date, at which point it will be \$9.5 billion. Thereafter, the deficiency will continue to increase to the year 2013 to an estimated peak of \$13.3 billion, since the special payments, which increase over time, will not cover the interest on the deficiency until that year.

On August 19, 1993 the Province and the Ontario Teachers' Federation agreed to share equally the actuarial gains and losses reflected in statutory valuations after January 1, 1993. Originally, equal sharing was to be achieved by January 1, 1997.

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

7. CONTRIBUTIONS

(\$ Millions)	1993	1992
Members		
Current service	\$ 617	\$ 606
Optional credit	30	49
Repayments of refunds	16	19
	663	674
Province of Ontario		
Current service	608	598
Optional credit	11	32
Interest	84	101
Special payments (note 6)	—	438
	703	1,169
Other employers	9	9
Transfers from other pension plans	26	37
	\$1,401	\$1,889

8. BENEFITS

(\$ Millions)	1993	1992
Retirement pensions	\$ 888	\$ 812
Disability pensions	24	23
Death benefits	61	58
Refunds	10	11
	983	904
Transfers to other plans	18	17
	\$1,001	\$ 921

9. ADMINISTRATIVE EXPENSES

(a) Investment Expenses

<i>(\$ Millions)</i>	1993	1992
Salaries and benefits	\$ 7.0	\$ 5.0
Investment management fees	5.7	4.4
Custodial and banking fees	3.1	2.0
Premises and equipment	2.0	1.0
Professional consulting services	0.8	0.9
Publications and regulatory fees	0.6	0.4
Communication and travel	0.5	0.3
Audit fees	0.2	0.1
All other	0.2	0.1
	\$ 20.1	\$ 14.2

(b) Customer Service Expenses

<i>(\$ Millions)</i>	1993	1992
Salaries and benefits	\$ 12.1	\$ 12.6
Premises and equipment	7.7	5.3
Professional consulting services	2.3	2.8
Communication and travel	1.3	1.8
Stationery and supplies	0.3	0.4
Board and committee remuneration	0.1	0.1
Audit fees	0.2	0.1
All other	0.2	0.2
	\$ 24.2	\$ 23.3

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1993

(c) Management Compensation

This table represents the base compensation and other incentive income earned in 1992 and 1993 by the Chief Executive Officer and four other most highly compensated executive officers.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Long-term Incentive Plan ⁴	All Other Compensation ⁵
Claude Lamoureux President and CEO	1993	\$276,534	\$127,900	\$34,600 ¹	—	\$751
	1992	262,905	112,000	34,600 ¹	—	681
Robert Bertram Senior V.P.	1993	243,354	66,400	33,000 ²	—	657
Investments	1992	233,027	78,000	33,000 ²	—	605
George Engman V.P. Research and Development	1993	141,850	97,600	12,500 ³	—	390
	1992	133,311	111,843	12,500 ³	—	351
Patricia Murphy V.P. Fixed Income	1993	150,391	82,700	N/A	—	406
	1992	142,434	104,454	N/A	—	377
Heather Hunter V.P. Equities	1993	154,537	67,400	N/A	—	425
	1992	146,804	83,475	N/A	—	387

Notes:

(1) Mortgage assistance for relocation \$25,000 per annum. Automobile allowance \$9,600 per annum.

(2) Mortgage assistance for relocation \$25,000 per annum. Automobile allowance \$8,000 per annum.

(3) Reimbursement for forfeited external directorship.

(4) Long-term incentive plans are in place for executive employees. No payouts will be made until 1996, at which time they will be reported.

(5) Employer paid group term life insurance.

10. PURCHASES OF OPTIONAL CREDIT

(a) Prior to 1992 the Plan enabled members to purchase additional credited service for a variety of reasons at a favourable cost to the teachers. Approximately 80,000 teachers applied by the December 31, 1991 deadline.

These purchases must be paid in full by December 31, 1994. The financial statements and the actuarial valuation reflect only the purchases paid in full to December 31, 1993. There are a significant number of incomplete purchases. If all outstanding purchases are completed in full, the estimated increase in the Plan's deficiency would be approximately \$300 million.

(b) The Ontario courts ordered the Board to accept the applications of three occasional teachers to purchase credit for their breaks in service prior to December 31, 1991. The decision was upheld by the Supreme Court of Canada on February 3, 1994. The impact of this decision on the Plan cannot be determined at this time.

AUDITORS' REPORT TO THE ADMINISTRATOR

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We have audited the statement of net assets available for benefits and accrued pension benefits and deficiency of the Ontario Teachers' Pension Plan as at December 31, 1993 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficiency for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Plan as at December 31, 1993 and the changes in its net assets available for benefits, accrued pension benefits and deficiency for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

Toronto, Canada

March 23, 1994

ACTUARIES' OPINION

WILLIAM M.
MERCER
 LIMITED

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 1993, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board. In addition, we provided the Board with statistical, survey and other information which, along with our analysis, allowed them to develop their long-term economic assumptions.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at December 31, 1992;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events; and
- information provided by the Education Relations Commission on negotiated wage settlements in 1992 and 1993.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1993 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act*, and the *Pension Benefits Act*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods used are consistent with sound actuarial principles, and that the assumptions are appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with generally accepted actuarial practice.



Lester J. Wong, F.C.I.A.
 February 23, 1994



Malcolm P. Hamilton, F.C.I.A.

SCHEDULE OF PROVINCE OF ONTARIO DEBENTURES

as at December 31, 1993

(\$ Millions)

Maturity Date	Coupon %	Market Value	Cost
1994 - 1998	7.00 - 7.99	129	119
	8.00 - 8.99	196	180
	9.00 - 9.99	446	397
	10.00 - 10.99	215	198
	11.00 - 11.99	69	64
	14.00 - 14.99	141	107
	16.00 - 16.99	221	165
		1,417	1,230
1999 - 2003	8.00 - 8.99	314	286
	9.00 - 9.99	1,555	1,332
	10.00 - 10.99	603	502
	11.00 - 11.99	888	717
	12.00 - 12.99	476	351
	13.00 - 13.99	885	630
		4,721	3,818
2004 - 2008	10.00 - 10.99	1,502	1,195
	11.00 - 11.99	2,322	1,745
	12.00 - 12.99	1,964	1,396
	13.00 - 13.99	408	283
	14.00 - 14.99	516	335
	15.00 - 15.99	1,582	945
		8,294	5,899
2009 - 2012	10.00 - 10.99	2,424	1,911
	11.00 - 11.99	2,475	1,855
		4,899	3,766
Accrued Interest		481	481
		19,812	15,194

INVESTMENTS IN CORPORATE SHARES AND CONVERTIBLE DEBENTURES GREATER THAN \$25 MILLION

as at December 31, 1993

Enterprises	Number of Shares	Market Value (\$ Millions)
Corporate Shares		
ABN Amro Holdings	985,151	47.9
Alberta Energy Company Ltd.	2,631,400	48.7
Alcan Aluminum Limited	5,620,200	156.0
American Barrick Resources Corp.	4,290,200	161.4
ATS Automation Tooling Systems, Inc.	3,319,792	37.8
Bank of Montreal	5,743,294	158.7
Bank of Nova Scotia, The	4,330,300	132.6
Bayer AG	109,080	30.7
BCE Inc.	7,913,900	366.0
Bombardier Inc.	2,922,100	61.4
Cambridge Shopping Centres Ltd.	3,750,203	68.0
Canadian Imperial Bank of Commerce	7,557,264	249.4
Canadian Occidental Petroleum Ltd.	1,469,400	43.7
Canadian Pacific Ltd.	7,955,700	188.7
Canadian Tire Corporation Limited	4,722,400	82.6
Co-Steel Inc.	2,219,400	63.3
Dofasco Inc.	1,270,421	29.5
Echo Bay Mines Ltd.	2,768,400	47.4
Elan Energy Inc.	2,372,400	25.5
Fletcher Challenge Canada Limited	1,642,991	30.3
Hitachi Ltd.	2,654,000	25.9
Home Oil Company Ltd.	1,775,935	30.6
Horsham Corporation	3,573,200	69.2
Hutchison Whampoa	4,687,000	30.9
Imasco Limited	2,391,650	96.0
Imperial Oil Limited	1,709,375	76.5
Inco Limited	2,821,800	100.2
International Semi-Tech Micro Electronics Inc.	3,449,200	53.5
Interprovincial Pipe Line System Inc.	1,119,700	36.1
IPSCO Inc.	1,037,200	27.0
Ito-Yokado Co.	441,000	26.7
Jardine Strategic Holdings	5,435,000	33.7
Labatt, John Limited	1,675,600	37.9
LAC Minerals Ltd.	5,183,650	59.6
Laidlaw Inc.	6,795,200	62.0
Maclean Hunter Limited	8,024,600	101.3
MacMillan Bloedel Ltd.	3,636,974	77.3
Magna International Inc.	588,000	38.4

Enterprises	Number of Shares	Market Value (\$ Millions)
Maple Leaf Foods Inc.	2,184,037	28.1
Metall Mining Corporation	4,855,276	55.2
Methanex Corporation	5,360,400	55.6
Molson Companies Limited, The	1,959,250	56.0
Moore Corporation Limited	3,109,001	79.3
National Bank of Canada	5,405,850	60.8
Newbridge Networks Corporation	733,200	53.5
Noranda Inc.	2,836,700	73.4
Northern Telecom Limited	4,153,700	169.8
Nova Corporation of Alberta	11,505,800	107.9
Oversea-Chinese Banking Corp.	1,933,666	26.6
Pegasus Gold Inc.	1,395,000	40.5
Placer Dome Inc.	5,725,781	188.2
Potash Corporation of Saskatchewan Inc.	1,528,400	51.0
Power Corporation of Canada	3,684,900	78.3
Power Financial Corporation	1,300,300	44.2
Québecor inc.	2,768,200	49.9
Ranger Oil Limited	8,464,900	57.1
Renaissance Energy Ltd.	3,696,500	104.4
Rio Algom Limited	2,553,200	53.9
Rogers Communications Inc.	3,289,000	72.0
Royal Bank of Canada, The	9,143,800	264.0
Seagrams Company Ltd., The	5,778,800	200.8
Société Nationale Elf Aquitaine	488,900	45.6
Talisman Energy Inc.	1,627,643	47.2
Teck Corporation	2,780,400	64.6
Telefonica de Espana	1,497,804	29.8
Telus Corporation	3,335,400	53.4
Thomson Corporation, The	6,893,500	120.1
Toronto-Dominion Bank, The	11,116,300	237.6
TransAlta Utilities Corporation	4,882,692	74.5
TransCanada PipeLines Limited	4,556,600	91.7
Westcoast Energy Inc.	2,291,400	50.4
<hr/>		
	Par Value	
	(\$ Millions)	

Convertible Debentures

Power Financial Corporation		
8.0% Due Apr. 30, 2014	171.0	205.2
Telecom Telesystem LTD.		
5.44% Due Nov. 18, 2002	31.3	48.4

FOUR-YEAR REVIEW

(\$ Millions) for the year ended December 31	1993	1992	1991	1990
CHANGES IN NET ASSETS				
Revenues				
Investment Income				
Interest	1,640	1,819	1,762	1,952
Dividends	260	161	100	6
Capital appreciation	4,007	165	1,981	(927)
	5,907	2,145	3,843	1,031
Contributions				
Members	647	655	597	526
Province of Ontario				
– current and past service	703	731	654	579
– special payments ¹	—	438	270	187
Other employers	9	9	9	8
Repayment of refunds and transfers	42	56	54	33
	1,401	1,889	1,584	1,333
Total Revenues	7,308	4,034	5,427	2,364
Expenditures				
Benefits paid	973	893	806	742
Refunds and transfers	28	28	23	18
Administrative expenses	44	37	25	20
Distribution of gain	325	—	—	—
Total Expenditures	1,370	958	854	780
INCREASE IN NET ASSETS	5,938	3,076	4,573	1,584
NET ASSETS				
Investments				
Ontario debentures	15,666	17,177	18,030	16,449
Money market securities	1,269	1,245	569	1,385
Bonds and mortgages	1,182	1,042	616	295
Equities	14,545	6,470	4,414	1,327
Real estate	608	451	180	—
	33,270	26,385	23,809	19,456
Receivable from Province of Ontario	1,362	1,323	1,190	945
Other assets	36	72	10	—
Liabilities	(957)	(7)	(312)	(277)
Net Assets	33,711	27,773	24,697	20,124
Actuarial value adjustment	(2,947)	(414)	(883)	709
Actuarial value of net assets	30,764	27,359	23,814	20,833
Actuarial value of pension benefits	33,998	30,781	27,479	24,391
DEFICIENCY	3,234	3,422	3,665	3,558
RATE OF RETURN (%)				
After inflation	21.7	8.9	19.6	5.6
	20.0	6.8	15.8	0.6

The 1992 figures have been reclassified to conform with the 1993 presentation

BOARD OF DIRECTORS AND CORPORATE DIRECTORY

Board of Directors

Gerald K. Bouey, Chairperson
John H.C. Clarry
Gail Cook-Bennett
Duncan Green
Martin R. Hicks
Doug McAndless
C. Edward Medland
Lynne Sullivan
Margaret Wilson

Investment Committee

C. Edward Medland, Chairperson
Jalynn Bennett
Gerald K. Bouey
John H.C. Clarry
Gail Cook-Bennett
Duncan Green
Martin R. Hicks
Doug McAndless
Gary Porter
Lynne Sullivan
Margaret Wilson

Audit and Actuarial Committee

Doug McAndless, Chairperson
John H.C. Clarry
Gail Cook-Bennett
Martin R. Hicks
Lynne Sullivan

Benefits Adjudication Committee (Appeals)

Duncan Green, Chairperson
Bob Blackwood
Ron Edwards
Sherry Corden Fairweather
Wendy Gauthier
Sherron Hibbitt
Shannon Hogan
Kimi McCulloch
David Paton
Roger Régimbal
George Saranchuk
Elizabeth Stein

Corporate Directory

President and Chief Executive Officer:
Claude Lamoureux

Investments:

Senior Vice-President: Robert Bertram
Vice-President, Fixed Income: Patricia Murphy
Vice-President, Equities: Heather Hunter
Vice-President, Research and Development:
George Engman
Vice-President, Real Estate: Brian Muzyk
Vice-President, Core Portfolios: Morgan McCague

Customer and Information Services:

Vice-President: Al Reesor

Plan Definition and Employer Services:

Vice-President: William Foster

Human Resources and Corporate Services:

Vice-President: John Brennan

Finance:

Vice-President: Ralph Barnes

Law:

General Counsel: Roger Barton

Internal Audit:

Vice-President: John Dickson

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager at 416-730-5347.

Communications Department
Ontario Teachers' Pension Plan Board
5650 Yonge Street
North York, Ontario
M2M 4H5
Toll-free: 1-800-668-0105
Local: 416-226-2700

Acknowledgements

We'd like to thank the teachers and students who appear in the photographs in this report. In particular, our thanks go to the following for their assistance organizing the photography sessions:

- Lionel Desjardins, Vice-Principal
St. Joseph-Scollard Hall High School, North Bay
- Donna McCaw
Centre Wellington District High School, Fergus
- Ken Paradine, Principal
Parkfield Junior School, Etobicoke
- Cally Simmons, Principal
Wells Street Public School, Aurora

On the front cover:

Liz Foisy teaches instrumental music in North Bay (*top left*)
Warren Snyder takes his grade five class skating in Etobicoke (*top right*)
Joy Lee teaches grades one to three in Aurora (*bottom*)

On the back cover:

Ken Milne, shown supervising recess, teaches grade five in Aurora (*top*)
Susan McPhedran teaches grade ten environmental science in Fergus (*middle*)
Jean Leavoy teaches grade one in Etobicoke (*bottom*)



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Teachers'
Pension Plan
Board

Ontario

CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is the largest single invested pension fund in Canada and ranks among the nation's top financial institutions.

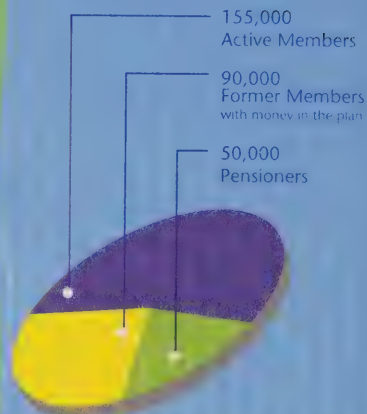
The plan has total assets exceeding \$40 billion. Approximately two-thirds of these assets are equities, principally corporate shares and equity-return derivative contracts. The equity portfolio also includes income-producing real estate properties. The remaining one-third of assets are fixed-income securities, largely government debentures and interest-rate swap contracts.

The plan's membership consists of 155,000 elementary and secondary school teachers and almost 50,000 retired teachers and their survivors. There are also approximately 90,000 former teachers with entitlements in the plan.

The plan is sponsored by a partnership between the Ontario government and the plan members, who are represented by the Ontario Teachers' Federation.

MEMBER PROFILE

as at December 31, 1995



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CORPORATE DIRECTORY



FINANCIAL HIGHLIGHTS

as at December 31

Total Assets		
(\$ Billions)	1995	1994
Total Assets	41.9	35.4
Canadian equities	12.2	9.9
Foreign equities	12.3	10.7
Real estate	0.9	0.7
Fixed income	13.6	12.1
Contributions receivable	1.3	1.4

Investment Performance		
Rate of Return on Investments	1995	1994
Annual	16.9%	1.7%
Real return, after inflation	15.2%	1.5%
Four-year average	12.1%	12.7%
Four-year benchmark	11.0%	10.6%

Average Annual Compound Rates of Return (%)						
	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr
Return	16.9	9.1	13.1	12.1	13.5	12.2
Benchmark	17.2	8.1	12.0	11.0	11.9	8.3

Income and Expenses		
(\$ Millions)	1995	1994
Investment operations		
Investment income	5,656	528
Investment expenses	(30)	(25)
	5,626	503
Customer service operations		
Total contributions	1,305	1,436
Benefits paid	(1,261)	(1,130)
Customer service expenses	(27)	(26)
	17	280
Increase in net assets	5,643	783

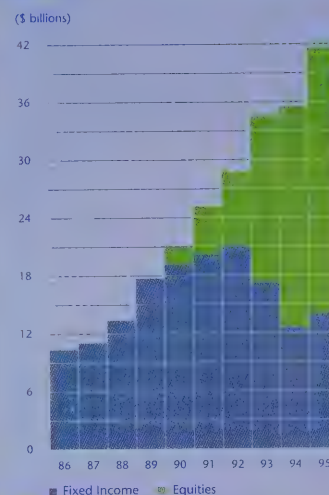
Deficiency Status		
(\$ Billions)	1995	1994
Future cost of pensions	38.7	36.8
Actuarially adjusted net assets*	38.2	34.2
Deficiency	0.5	2.6

* We smooth annual fluctuations of gains or losses over five years.

Throughout this report, the effects of derivatives are included in the value of investments, investment income, and rates of return.

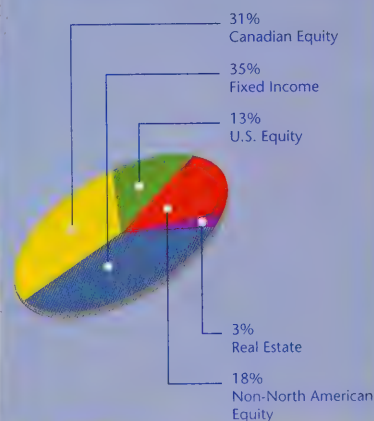
TOTAL ASSETS

as at December 31



ASSET MIX

as at December 31, 1995



CHAIRPERSON'S REPORT



Edward Medland
Chairperson

We have closely monitored the pension review program over the past three years.

For the first six years of our mandate as an independent corporation, we were most fortunate to have been under the stewardship of Gerald Bouey, a former governor of the Bank of Canada. I had the pleasure of working with Mr. Bouey on the board of directors from 1990 until his retirement in December 1995 and the members of the board join me in thanking him for his invaluable contribution.

Thanks to Gerald Bouey

As the founding chairperson, Mr. Bouey oversaw the transformation of the pension plan from an agency of government to an independent corporation sponsored by both the Ontario government and the Ontario Teachers' Federation. He initiated a tradition of accountability to the partners and plan members. Mr. Bouey also consulted with the partners to continue their practice of appointing directors who bring to the boardroom deep knowledge of finance, investment, administration, and the teaching profession.

During Mr. Bouey's tenure, the plan embarked upon a diversified investment program into stocks and bonds, merchant banking and real estate, in Canada and in foreign markets. He supported the early use of derivative contracts, such as swaps and options, to better manage investment risk and to enhance financial returns.

Under his stewardship, the administration of pension benefits has been modernized through the introduction of new technology and the adoption of customer-friendly service to teachers and pensioners.

Gerald Bouey's personal integrity, high standards and sound counsel will be sorely missed.

Changes in the Board

The original membership of the board of directors is in transition. Of the members appointed in 1990, four have retired, most recently Margaret Wilson and John Clarry in 1995. While directors are restricted to a maximum of four two-year terms, the retirement dates of the initial directors were staggered to ensure continuity of board experience.

Two directors joined the board in 1995 — Jalyynn Bennett, president of a strategic planning consulting firm, and David Lennox, executive secretary of the Ontario Public School Teachers' Federation. Robert Korthals, former president of the Toronto-Dominion Bank, joined the board in January 1996. With my appointment to chair of the board, Mr. Korthals has assumed the chair of the investment committee. David Lennox is now chair of the benefits adjudication committee, succeeding Mr. Clarry, and Doug McAndless continues as chair of the audit and actuarial committee.

Corporate governance

Corporate governance practices are beginning to have an influence among Canadian corporations in clarifying the responsibilities of directors in relation to management, and in more closely aligning the financial rewards of management with the financial returns delivered to stakeholders.

A similar philosophy prevails at the pension board. We are very fortunate to have a board of directors where financial and investment expertise is coupled with in-depth knowledge of teacher concerns and administration to provide balance in our deliberations. This is of such importance to the way we represent the interests of plan members that we have disclosed in this annual report our compliance with the corporate governance guidelines issued by the Toronto and Montreal stock exchanges for listed companies. This discussion begins on page 8.

Major challenges

We have been able to effectively meet major challenges facing the organization thanks to the expertise of the board of directors and the co-operative partnership on the pension plan that has existed between the Ontario Teachers' Federation and the Ontario government.

In recent years, considerable attention has been devoted to developing internal investment expertise by hiring highly competent professionals to manage the plan's large and diversified asset base. These individuals have enabled the plan to achieve long-term rates of return that exceed the general performance of the markets in which we invest.

We have also been dealing with difficult issues concerning the quality of pension benefits information. Inconsistencies were discovered in member files that affect pensions currently in pay. A more extensive investigation surfaced widespread problems and the directors supported a major effort to modernize plan administration, including a thorough review of the accuracy of every pension in pay. We have closely monitored the pension review program over the past three years and will continue to do so.

These bonuses reward executives for the additional value that was created in the fund.

Incentives for employees

Consistent with good corporate governance practices, a portion of compensation is contingent on meeting various performance targets. Executive staff are expected to deliver above-average financial returns and excellent plan administration services to members. The directors approved a long-term bonus structure for executives in January 1992, following consultations with external compensation experts. These bonuses have been accumulating over the past four years and the first payments were made in early 1996.

For investment executives, long-term bonuses are based on total fund performance exceeding benchmarks over a four-year period. The board of directors believes the long-term bonus program works exceptionally well in aligning the interests of senior managers with those of plan members. As you can see on page 46, these investment executives are receiving long-term bonuses for the four years ended in 1995. These bonuses reward executives for the \$1.2 billion of additional value that was created in the fund during that time, in excess of the performance of a composite benchmark that measures the markets in which we invest.

Administrative executives are rewarded for improving the quality of service to members and meeting cost-control targets. Service quality is measured by an index, based on surveys of teachers and pensioners. Over the last three years, the index showed a 10 percent improvement. Ongoing administrative costs (excluding investments and special projects) have remained virtually the same at less than \$100 per member in constant dollars since 1992, despite a larger number of customer service requests and faster service.

We also have annual compensation-for-performance programs to ensure that we continue to attract and retain individuals with the experience and professional qualifications needed to implement the investment strategy and administer the pension plan. For example, administrative managers receive bonuses annually for meeting pre-set objectives while investment staff receive bonuses annually for individual, portfolio, asset class and total fund performance. The directors also review and approve base salary ranges and incentive programs competitive with similar positions in like organizations in the financial services sector.

Acknowledgments

I am honored to be selected by the partners as chairperson. On behalf of the directors, I thank Gerald Bouey, Margaret Wilson and John Clarry for their commitment and dedication as former members of the board. I intend to continue the tradition they have established of maintaining open and clear accountability to the plan members and partners.



C. Edward Medland
Chairperson

PRESIDENT'S REPORT



Claude Lamoureux
President and
Chief Executive Officer

We continue to make steady progress toward our goal of placing the pension plan in a surplus position, thanks to strong investment results and the low inflation experienced in recent years. At the same time, we are implementing an extensive program to verify the accuracy of all of the approximately 50,000 pensions being paid to retired teachers and their survivors, and to make adjustments where necessary.

Investment activity

During the past six years, we have diversified the plan's assets from solely Ontario debentures to a long-term asset mix of approximately two-thirds equities and one-third fixed-income securities.

The fund is now an active investor in Canadian and foreign stock and bond markets and the owner of one of Canada's largest real estate portfolios. Furthermore, as we explain in detail later in this report, we are an end-user of derivative contracts, such as swaps, futures and options.

Derivatives have enabled us to better manage risks inherent in a large pension fund. Starting in 1995, we have also used option programs to enhance overall performance.

Derivatives have enabled us to better manage risks.

Investment performance

All of this investment activity has resulted in a 12.1 percent average rate of return over the past four years. After allowing for inflation, the real rate of return was 10.6 percent, compared with the plan's long-term target of 4.5 per cent above inflation. Achieving the long-term target is central to avoiding an increase in the current contribution rate of

teachers and the government while moving the plan toward a fully funded position.

Our four-year results compare favorably with the performance of the markets in which we invest. A composite benchmark that simulates general market results based on our long-term asset mix produced an 11.0 percent rate of return for the four years ended in

1995. Our ability to outperform market averages means that our investment effort has produced value-added of \$1.2 billion to the plan over the past four years.

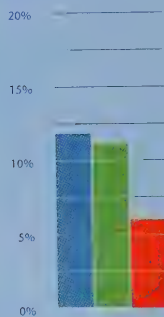
On a one-year basis, we earned a 16.9 percent rate of return in 1995, or \$5.7 billion, compared with 1.7 percent, or \$528 million, in the previous year. Our equity portfolios in Canada, the United States, Europe and Asia performed well. Results from our fixed-income portfolio, while positive, were disappointing. For the first time we underperformed the one-year benchmark because interest rates declined contrary to our expectation.

For full details on our investment policies and performance, please see the section entitled Management's Discussion & Analysis.

Our ability to outperform market averages has produced value-added of \$1.2 billion.

4-YEAR PERFORMANCE COMPARISON

as at December 31, 1995



■ TEACHERS' PENSION 12.1%
■ BENCHMARK 11%
■ CPI + 4.5% 6%

Deficiency

Our ultimate goal is to put the plan in a strong financial position to ensure the security of retirement income for members. At the end of 1990, when we initiated our current investment strategy, the plan had a deficiency of \$3.6 billion, representing the shortfall between the present value of all pensions earned to date and the value of assets in the plan. This meant that the assets covered 85 percent of benefits.

We are pleased to report that by the end of 1995, that deficiency had been reduced to \$0.5 billion and assets covered 99 percent of accrued benefits.

Modernizing plan administration

A major mission over the past several years has been a multi-faceted undertaking to modernize plan administration. Members of most pension plans receive pension services from their employers. In our case, we provide centralized customer service, thus avoiding the costs to Ontario's 274 school boards and participating independent schools of administering their own pension services.

In 1992, we began the process of modernizing plan administration, including the consolidation of member records that existed on paper and computer tapes for three old data processing systems onto a new information management system. At the same time, we introduced new training programs for customer service staff, and updated compliance procedures to ensure the quality and reliability of payments and services.

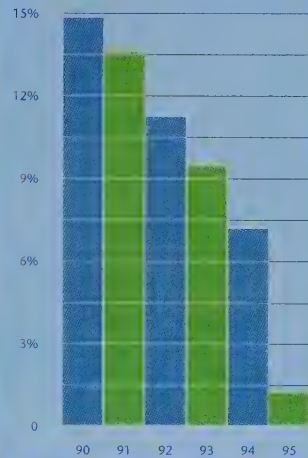
The changes have been dramatic. It used to take as long as six months to deal with a member's request. Today it takes up to 12 working days at the most and there is no backlog. In 1990, members had trouble reaching anyone to handle their enquiries. Today 45 customer service specialists handle as many as 80,000 calls a year.

Our greatest challenge is processing the pensions of newly retired teachers. This volume of work has increased from less than 2,500 annually in 1990 to nearly 4,000 a year today. In 1995, we also processed over 600 disability and survivor pensions.

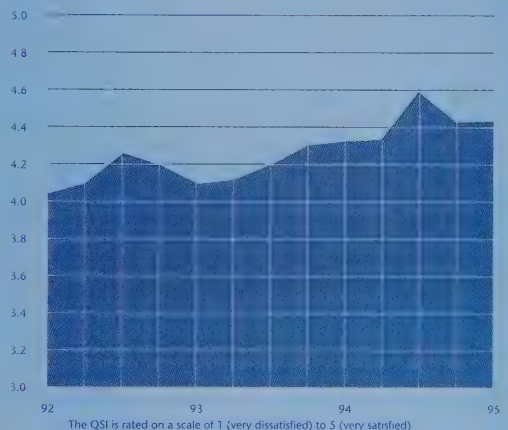
Other major challenges are pension estimates and applications for credit purchases by teachers who have been absent from the classroom for a period of time. We handle 7,000 of these requests annually.

We continually conduct surveys of teachers and pensioners to get feedback on our pension administration services. As the accompanying chart shows, plan members report increased levels of satisfaction as reflected in the Quality Service Index, which statistically captures members' views on the service they have received.

DEFICIENCY (as a percentage of liabilities)
as at December 31



QUALITY SERVICE INDEX





Al Reesor
Vice-President, Customer and
Information Services

Carole Piper-Peel
Vice-President, Data Resources and
Administrative Services

John Dickson
Vice-President, Internal Audit
and Taxation

Pension review program

The board is in the process of completing a major review of all pensions currently in pay. This involves checking the accuracy of 50,000 pensions going back many years. When we began to modernize plan administration, inconsistencies in member records were discovered among databases and other records. Initial errors included, for example, two different birth dates for the same member. The testing of our new information management system surfaced many other errors, such as the integration of pensions with Canada Pension Plan entitlements, the timing of adjustments for inflation, the calculation of pension benefits for survivors, and inconsistencies in the interpretation of plan rules and applicable legislation.

Realizing that errors were widespread, we consulted the board of directors, the plan's sponsors and legal counsel. As a result, we are conducting a thorough review of all pensions in pay. If a retired teacher has inadvertently been overpaid because of mistakes made by the board, the current pension will be maintained. If a retired teacher has inadvertently been underpaid, a payment for past deficiencies, plus interest, will be made and that individual's monthly payments will be corrected.

When this program is completed, we estimate that two-thirds of pension payments will remain unchanged and one third, or approximately 16,000 pensions, will increase. The first 12,000 pension verifications were mailed in December, 1995, and we plan to complete the review of all pensions-in-pay in 1997.

*We are conducting a
thorough review of all
pensions in pay.*

The one-time cost to the plan for paying members who were being underpaid is estimated at \$50 million. The present value of future increased pension payments, spread over the lifetime of pensioners and their survivors (approximately 40 years) is about \$100 million. The present value of the cost of continuing overpayments to other members is approximately \$50 million.

Changes in operating costs

The pension board's operating costs rose by 12 percent to \$56.9 million in 1995, compared with \$50.7 million a year earlier.

Costs relating to customer services were \$26.6 million, compared with \$25.8 million in 1994. Special project costs to implement the pension review program were \$6.6 million in 1995 for hiring temporary staff, purchasing related equipment, and paying legal, auditing, actuarial and computer service fees. We estimate the project will cost a further \$8 million in 1996.

Costs associated with investments increased in 1995 to \$30.3 million, compared with \$24.9 million in 1994. Management fees for external fund managers and other outside professionals rose substantially to \$7.8 million from \$6.7 million as we increased the volume of assets managed externally. Internal staff costs for such specialists as investment managers, analysts, computer programmers and investment accountants, represent 37 percent of total investment expenditures.

Customer Service Expenses

(\$ Millions)	1995	1994
Salaries and benefits	\$11.7	\$10.8
Special projects	6.6	7.0
Premises and equipment	3.9	4.0
Professional consulting services	2.4	2.0
Communication and travel	1.4	1.3
Board and committee remuneration	0.1	0.1
All other	0.5	0.6
	\$26.6	\$25.8

Our 1995 investment costs were about 7.8 cents for each \$100 of assets, compared with 7.5 cents in 1994. These costs are reasonable compared with similar investment organizations. For example, the 1994 average cost of investment services among comparable North American pension funds was close to 16 cents per \$100 of assets and for equity mutual funds was about \$2.00.

An independent study on our ability to create value relative to investment costs is provided by Cost Effectiveness Measurement Inc. The most recent

Investment costs were about 7.8 cents for each \$100 of assets.

analysis, for the three years ended in 1994, compared our performance with 19 large Canadian and U.S. pension funds with assets averaging \$29.5 billion. At that time, our

investments totalled \$33.4 billion. The analysis concluded that our investment costs were lower than funds in the peer group, and that we added value above the policy objectives.

We will, of course, continue to tightly manage all operating costs to ensure that improvements in long-term investment returns and pension services exceed their associated incremental costs. In this way, we will deliver measurable added value to plan members. We are also dedicated to protecting the security of future pensions and developing a sustainable surplus.

C. Lamoureux

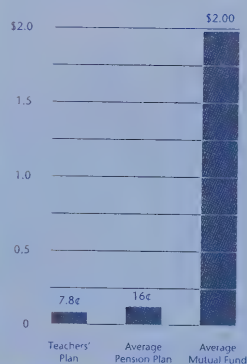
Claude Lamoureux
President and
Chief Executive Officer

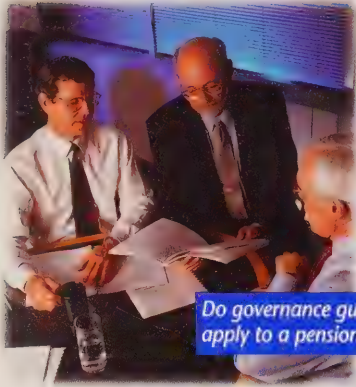
Investment Expenses

(\$ Millions)	1995	1994
Salaries and benefits	\$11.1	\$10.4
Investment management fees	7.8	6.7
Custodial and banking fees	3.4	2.9
Premises and equipment	3.1	1.6
Professional consulting services	2.8	1.9
Communication and travel	0.8	0.6
All other	1.3	0.8
	\$30.3	\$24.9

INVESTMENT EXPENSES

Cost per \$100 of assets





Roger Barton
General Counsel

Robert Bertram
Senior Vice-President, Investments

Claude Lamoureux
President and Chief Executive Officer

The Toronto and Montreal stock exchanges require listed companies to disclose their system of corporate governance as a requirement for continued listing on the exchange. We endorse this disclosure because, in our view, effective corporate governance helps to ensure that a company's resources are devoted primarily to enhancing long-term value. We have chosen to comply with these disclosure requirements because:

- we advocate good corporate governance practices and should measure our own behavior by the standards we expect of others; and
- we provide pension services to approximately 300,000 individual customers who have the right to know how their pension plan is governed and managed.

Mandate of the pension plan corporation

The Ontario Teachers' Pension Plan Board is an independent corporation (without share capital) established on January 1, 1990 by the *Teachers' Pension Act*. This Ontario statute requires the corporation to administer the pension plan, manage its investment assets, and pay members and their survivors the benefits promised. Specifically, the *Teachers' Pension Act* states: "The Board shall administer the pension plan and manage the pension fund in accordance with this Act, the *Pension Benefits Act*, and the *Income Tax Act* (Canada)."

The plan is a defined benefit pension plan registered under the *Pension Benefits Act* and the *Income Tax Act*. The first statute defines fiduciary duties of all pension plan administrators in Ontario and obliges them to invest assets with the same prudence expected of a person dealing with another's property. The standards of conduct expected of a fiduciary are also set out in common law.

The *Teachers' Pension Act* provides for the joint sponsorship of the pension plan by the Ontario government, through the Minister of Education and Training and the executive of the Ontario Teachers' Federation (OTF), as the representative of plan members.

An agreement signed by the partners effective January 1, 1992 sets out the terms of joint sponsorship. The partners are equally responsible for plan losses and gains. A six-member partners' committee is responsible for changes in plan design and benefit levels.

The agreement deals with the appointment of the board of directors and delineates its powers and duties other than those set out in legislation. The members of the partners' committee are not members of the board of directors.

Composition of Board of Directors

By law, the board of directors is required to act independently of the sponsoring partners and to make decisions in the best interests of all beneficiaries — that is, the active teachers, former teachers and retired teachers who are plan members

The corporate governance guidelines approved in May 1995 by the Toronto Stock Exchange focus on the independence and responsibilities of boards of directors.

We believe the guidelines are relevant to the behavior of pension plan organizations. Management is the responsibility of one group of individuals, while oversight or governance is vested in a board of governors, trustees or directors. Furthermore, pension funds exist to deliver financial benefits to plan members.

Of the 14 TSE guidelines, all but one apply to our pension plan. The exception recommends that a board committee nominate new directors. In our case, this is done, under the partners' agreement, by the plan's co-sponsors.

We comply generally or specifically with the remaining 13 guidelines, although our recent compliance with three (assessing the effectiveness of the board, defining the limits of management responsibility, and a director's ability to engage an outside advisor at the organization's expense) was in direct response to the TSE corporate governance report.

as well as the survivors of deceased members. In this respect, the role of the directors is similar to that of any corporation; they are required to act in the best interests of the corporation and its shareholders generally, and not in the interests of any specific group of shareholders.

Each partner appoints four directors and together the partners name the chair as the ninth director. Beginning in 1996, the chair is Ted Medland, former chief executive of a major investment house.

The partners select directors based on the relevance of their expertise and experience to the mandate of the corporation. No member of management is a director, and the offices of chair and chief executive officer are separate. Of the two partners, only the OTF has a direct representative on the board — the secretary of one of the five affiliates of OTF who is also a member of OTF's board of governors.

No director has a personal business relationship with the corporation. Subsequent to being appointed a director, one board member became a partner in a large pension benefits and executive compensation consultancy that is currently retained by the organization to advise on compensation matters.

A partners' committee is responsible for changes in plan design and benefit levels.

Board Committees

There are four board committees:

- *The investment committee*, which reviews the investment policy and asset mix, approves annual performance objectives for each investment portfolio, and approves all transactions that exceed the discretionary limits set for management. This committee includes all directors and currently one additional member.
- *The audit and actuarial committee*, which reviews the annual financial statements, recommends the appointment of the external auditors and the independent actuary, and receives their reports. The committee is chaired by a past president of the OTF. The other four committee members are also directors.
- *The benefits adjudication committee*, which rules on disputes between plan members and board staff about pension benefits. This committee includes two board members as well as 11 non-board members nominated by the partners and appointed by the board. Disputes are heard by panels comprised of the two board members and four other committee members.
- *The compensation committee*, which approves the salary ranges, annual performance bonuses and long-term performance bonuses for employees. This committee consists of the full board.

The board does not have a corporate governance committee; governance issues are dealt with by the full board in the normal course of business.

*The board of directors
operates independently of
management.*

Effectiveness of board

An orientation program is in place for directors to assist them in executing their fiduciary and governance duties. All directors attend special seminars on specific technical issues, such as the actuarial valuation of liabilities and the use of derivative contracts. Education is provided by outside experts as well as staff specialists.

The fact that each director is appointed for a two-year term, and can only serve a maximum of four consecutive terms, ensures that the partners consider the qualifications and effectiveness of individual directors on a continuing basis.

In 1995, the board and the investment committee met 13 times, the audit and actuarial committee seven, the benefits adjudication committee six times, and the compensation committee twice.

Independence of board

The structure of the board, and the process for appointing directors, is such that the board of directors is able to operate independently of management.

To ensure access to external sources of important information, the directors meet from time to time with outside advisers on general topics, as well as with external investment managers.

Furthermore, the audit and actuarial committee consults directly with the external auditors and the independent actuary and reviews the auditors' findings on the effectiveness of internal controls.

The board recently adopted a policy that enables individual directors to engage an outside adviser, with the approval of the chair, at the organization's expense in appropriate circumstances.

Role of management

Ongoing plan administration and investment management is delegated by the board of directors to the chief executive officer and his staff. The staff manages two core businesses — customer services and investment services — each supported by general corporate services. This is one of few Canadian pension organizations to provide personal services directly to its members rather than through their employers. In this respect, the corporation is a substantial customer service organization.

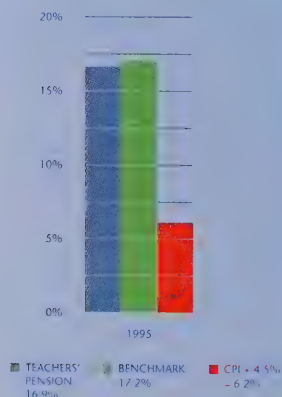
One of the responsibilities of the compensation committee is to review the succession plan of the organization on an annual basis.

Management performance

To ensure the interests of management and plan beneficiaries are closely aligned, senior staff receive annual and long-term bonuses based on the achievement of pre-set performance targets approved by the directors. The board requires management to set annual corporate objectives as well as longer-term business strategies. The objectives are accompanied by an annual financial plan for fund investment and plan administration.

The strategy for investments is expressed in the *Statement of Investment Policy and Goals*, which the board reviews annually. This document sets out, for example, the long-term asset mix policy as well as the need for the fund to achieve investment returns that exceed the rate of inflation by 4.5 percent. The board has approved an asset mix of two-third equities and one-third fixed-income securities.

1995 PERFORMANCE COMPARISON



The board also regularly reviews the strategies for active management of assets. Portfolio managers are rewarded annually for achieving four-year performance targets. In the case of pension plan administration, executives are required to meet annual and four-year performance targets for improvements in the quality of services delivered to members as measured by regular surveys of member opinions, and the effectiveness of managing operating costs.

The board obtains an actuarial funding valuation at least every three years to evaluate the plan's financial viability and an independent financial statement audit every year.

Portfolio managers are rewarded annually for achieving four-year performance targets.

The dollar size of the pension fund and the membership size of the pension plan heightens the plan's focus on risk. The board of directors regularly reviews the investment and non-investment risks faced by the organization, and the adequacy of procedures to deal with those risks.

Accountability and communications

The board has made accountability to the partners and disclosure of activities to plan members the cornerstone of its communication policy. The assets are managed to provide secure retirement income to teachers who have a right to know how their contributions are spent and invested.

This annual report, for example, attempts to comply with the disclosure requirements for public companies, which are more onerous than those imposed on pension funds. We maintain direct contact with plan beneficiaries — our “shareholders” and customers — through newsletters and annual statements of benefits, focus groups, quality-of-service surveys, presentations to teachers approaching retirement, management presentations to teacher organizations, meetings with the pension representatives of teachers' unions and the association representing pensioners, and daily telephone discussions and correspondence. We are accountable to members dissatisfied with staff decisions through the benefits adjudication appeal process.

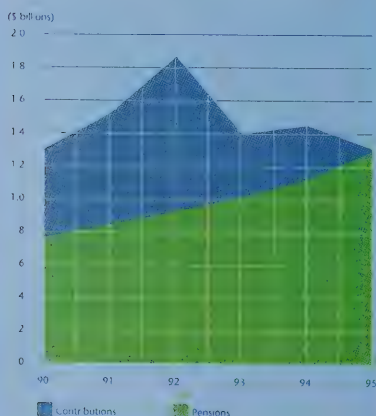


MANAGEMENT'S DISCUSSION & ANALYSIS

Investments by portfolio

(\$ Billions)	1995	1994
Fixed income	\$13.6	\$12.1
Canadian active equity	2.1	1.8
Canadian index equity	9.5	7.9
U.S. equity	5.0	4.6
Non-North American equity	7.0	5.9
Real estate	1.1	0.7
Merchant banking	0.7	0.4
	\$39.0	\$33.4

CONTRIBUTIONS VS. CURRENT PENSIONS as at December 31



This section of the Annual Report elaborates on the information contained in the audited financial statements to assist readers in viewing the plan's financial position and performance through the eyes of management.

PENSION PLAN OBJECTIVES

The plan is required to deliver defined benefits to Ontario's teachers during their retirement years. We manage the plan's assets to earn the best possible rate of return with a moderate level of risk, while attempting to avoid increases in contribution rates.

Our investment policy is expressed in a document entitled *Statement of Investment Policies and Goals*, which is reviewed annually by the board of directors and filed with the Pension Commission of Ontario.

Investment constraints

Legislation requires us to "exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another" (subsection 22 (1) *Pension Benefits Act, Ontario*). Under the "prudent person" rule, we are expected to consider every type of investment product that would be appropriate for a modern investment portfolio. The investment staff's authority to invest in any particular product is set out in the *Statement of Investment Policies and Goals*.

Under the *Pension Benefits Act*, pension funds are restricted to owning no more than 30 percent of a company's voting shares and are generally prohibited from mortgaging or pledging assets as well as from borrowing, except for short-term contingencies.

Investment objective

Our objective is to earn an annual rate of return of 4.5 percent above inflation over the long term. For the past four years, the rate of return averaged 12.1 percent. After allowing for 1.5 percent inflation, the real rate of return was 10.6 percent — well above the long-term objective.

Asset mix

An asset mix of two-thirds equity and one-third fixed-income securities is appropriate in view of the size and structure of the plan's liabilities, our investment objective, and the historical rates of return for different types of investment products. Studies show that such an asset mix has a high probability of keeping the fund in a sound financial position over the long term, which enhances the security of future pension benefits. The security of retirement income is important because teachers, who typically retire at age 58, draw benefits on average for 26 years after retirement.

At the end of 1995, 65 percent of the assets generated an equity return, compared with 64 percent a year earlier. In the future, the proportion of the plan's assets invested

in equities could range from 55 percent to 75 percent, depending on our evaluation of market conditions.

INVESTMENT MANAGEMENT APPROACH

Our intention is to actively manage as much of the fund as possible to create extra value in the fund as measured against the performance of the markets in which we invest. Creating extra value is important as current pension payments are almost equal to contributions, which means that the plan must increasingly rely on investment income to pay future pension benefits.

We have approximately 80 professionals to implement this value-added strategy. They include a "front office" of investment managers and analysts who make buy and sell decisions in various asset classes; a "middle office" that monitors and evaluates investment risk and conducts economic and investment research; and a "back office" responsible for accounting, independent valuations, compliance with investment policies, and performance measurement.

Value creation

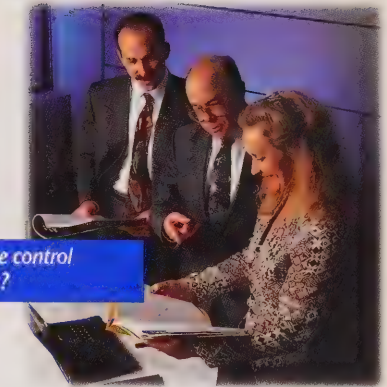
Over 80 percent of the value creation is through the establishment of a long-term asset mix appropriate to the liabilities of the fund and the investment objective. However, we can take advantage of market opportunities by varying the weighting of the different investment classes within the asset mix. We also attempt to improve returns through the selection and trading of stocks and bonds. Currently, approximately half of our total assets are actively managed.

This management approach has created over \$1.2 billion of extra value in the fund over the past four years. This additional wealth is the excess of the fund's actual performance over the rate of return for a composite benchmark that reflects the performance of markets in which we invest. (Performance against benchmarks is discussed on page 17.)

Use of derivatives

We use derivative contracts, such as futures, swaps and options, to shift the asset mix from fixed-income returns to equity returns, to manage interest rate volatility, and to manage foreign currency exposure. These contracts are supported by appropriate underlying assets.

How do we control derivatives?



Neil Petroff
Vice-President, Core International
Morgan McCague
Vice-President, Core Domestic
Patricia Murphy
Vice-President, Fixed Income

Derivative contracts are a large part of our investment activities, involving transactions with total notional values in several billions of dollars. Risk management is, therefore, a critical concern. What controls do we have in place? Are they good enough? Is there room for improvement?

The recognized standard for derivatives practices is a 1993 report produced by a Washington-based organization known as the Group of Thirty (G-30), made up of representatives of large banks and other participants in derivative markets. The G-30 report has 24 recommendations on the risk management of derivatives.

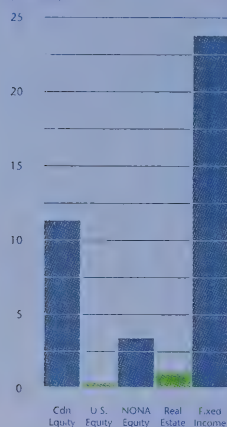
In 1994 we reviewed our compliance with the G-30 recommendations. We are in compliance with all recommendations that apply to our activities. A key G-30 recommendation is the importance of determining the value of derivative positions by marking them to market on a regular basis. Depending on the type of contract, we mark-to-market some items daily and most are done weekly.

Although in compliance with G-30 recommendations, we are continually reviewing our investment policies for derivative products and upgrading our reporting procedures. For example, we are developing a stress-testing model for liquidity risk management to simulate extreme market conditions and abnormal market swings and their impact on our portfolios.

ASSETS WITHOUT DERIVATIVES

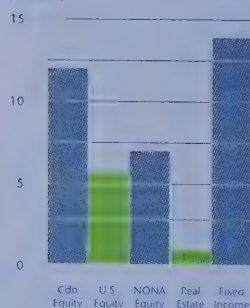
as at December 31, 1995

(\$ billions)

**ASSETS WITH DERIVATIVES**

as at December 31, 1995

(\$ billions)



The plan may also take derivative positions with the intention of enhancing overall returns. Throughout this report, the effects of derivatives are included in the value of investments, investment income, and rates of return.

Derivatives provide flexibility in implementing our investment strategy. For example, it is quicker and cheaper to acquire a return based on a market index, such as the Standard & Poor's 500 on the New York Stock Exchange, utilizing equity swaps than by purchasing stocks of the 500 individual companies.

RISKS AND RISK MANAGEMENT

Policies and procedures exist for managing investment risks, and compliance is monitored on a regular basis. These policies and procedures are reviewed annually with the board of directors. We are committed to continuous improvement of our risk management practices. By the end of 1996, we intend to monitor the "Value at Risk" in each portfolio on a daily basis. We are also enhancing our computer models for matching the risks between assets and liabilities so that we can measure the impact of changes in risk factors on the fund's financial position.

Among the most important risks faced by the fund are:

- asset/liability matching
- interest rate volatility
- stock market volatility
- liquidity risk
- credit risk
- foreign currency exposure

Asset/liability matching

The plan has promised to pay all 205,000 existing members and their survivors approximately \$39 billion in present and future pensions throughout their lives. Our goal is to select investments that produce acceptable rates of return to meet these obligations over coming decades. If we developed a risk-free investment portfolio, rates of returns would be stable but low and contributions would need to be higher. If we focused solely on earning the highest rates of return, results would be more volatile and risks would therefore be greater, but contributions might be lower. Our goal is to select an asset mix that balances risks and rewards and avoids increases in contribution rates.

Several studies have concluded that most of the difference in the long-run performance among investment funds can be explained by risk differences in their asset mix. Consequently, the dominant determinant of a fund's long-term performance is its asset mix. Furthermore, diversification across various asset classes is the single most important investment management tool for reducing volatility and therefore reducing risk.

There is a difference in duration between the plan's pension liabilities and fixed-income assets, and we are looking at ways of reducing the difference. We manage this difference by investing the majority of funds in longer duration assets, such as equities and real estate. These assets, along with real-rate bonds and index-linked mortgages, have historically also correlated well with inflation.

Within the risk tolerance established by the board of directors, we have determined that an asset mix of two-thirds equities and one-third fixed-income securities best matches our liabilities, is mostly likely to achieve our investment goal, and reduces the prospect of increases in contribution rates. Asset mix is monitored and rebalanced on a regular basis.

We retain ownership of the underlying debentures and swap only the interest.

Approximately 48 percent of the plan's physical assets consist of \$18.8 billion of non-marketable Ontario debentures, the last of which mature in 2012. These investments, combined with bonds and other debt investments, overexpose the fund to fixed-income markets. We use derivatives to manage the returns on the debentures primarily by shifting them into equity equivalents. This shift more appropriately matches the plan's assets with its long-term liabilities.

At December 31, 1995, we had exchanged the interest income from \$10.3 billion of the debentures for floating-rate exposure, using interest rate swaps with major financial institutions. We also exchanged \$8.3 billion of floating-rate exposure for equity returns using equity swaps. These transactions are summarized in note 2(b) to the financial statements. In this process, we retain ownership of the underlying debentures and swap only the interest, not the principal. We do not assume additional market risk by using equity swaps compared with making direct cash investments in equities.

Interest rate volatility

Our liabilities are sensitive to changes in our expectation of long-term rates of return on investments, as well as inflation and the salary growth of teachers.

Note 2(d) discusses the sensitivity of liabilities to real rate of return changes over the long term. Declining real rates of return over many years could, for example, put pressure on the contribution rates required to meet pension obligations.

Furthermore, we manage fixed-income asset exposure to interest rate volatility by using derivative contracts such as interest rate swaps, forwards, futures and options.

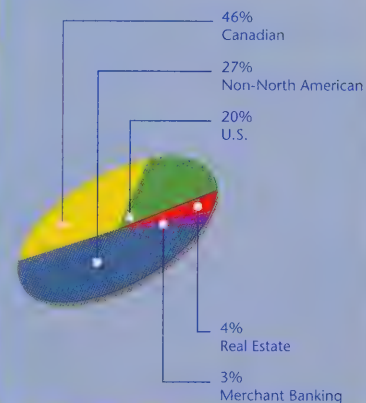
Stock market volatility

Having a large stock portfolio exposes us to market volatility, with a negative return anticipated about once in every five years. The long-term performance expectation of corporate shares, however, outweighs the risks of short-term cyclical volatility.

We are further exposed to market volatility because of our size relative to the Canadian stock market, which represents just under three percent of global markets. Our size constrains our ability to move in and out of the market, a situation exacerbated

EQUITY PORTFOLIO

as at December 31, 1995



Rate of Return Compared to Benchmark

	1995	Benchmark
Fixed income	14.6%	19.4%
Canadian active equity	16.3	14.5
Canadian index equity	14.7	14.5
Foreign equity	21.8	18.9
Real estate	6.5	4.1
Merchant banking	21.5	16.5
Overall	16.9%	17.2%

4-Year Average Rate of Return Compared to Benchmark

	4-year average	Benchmark
Overall	12.1%	11.0%

by the fact that the shares of many leading Canadian corporations are closely owned. This means a limited number of shares is publicly available to large investors seeking equity opportunities. The available capitalization on the Toronto Stock Exchange was approximately \$300 billion in 1995.

Part of our risk management strategy involves obtaining returns from other markets in the world to reduce our dependence on the Canadian economy and to take advantage of different regional economies. Global diversification involves the use of both cash market purchases and derivative contracts. Being exposed to several economies reduces portfolio volatility. However, Canada remains our primary equity market, where we have \$12.2 billion invested in equities, followed currently by the United States with \$5.0 billion and Japan with \$2.3 billion.

Liquidity risk

Net of pension payments and operating costs, cash available for new investment totalled \$2.4 billion in 1995. Our cash flow will increase by approximately \$450 million a year starting in August 1996 when the government is scheduled to resume the special payments it has promised to make until 2029 to eliminate the pre-1990 unfunded liability. Cash flow will also increase by a further \$115 million from debentures that mature in 1996.

The cash needs for pension payments and operating expenses are predictable. Potentially the most unpredictable cash requirement relates to equity swap contracts, which can have terms up to five years. However, every three to six months we receive any gains accumulated on these contracts and pay any losses to counterparties. This reduces our liquidity and credit risks. This cash collateral, along with approximately \$2 billion of marketable short-term securities, annual cash flow, and other liquid assets, ensures that we have sufficient cash reserves in the event of a major decline in asset values.

Credit risk

We are exposed to credit risk every time we make an investment in the event a security issuer defaults on payments or becomes insolvent. Credit risk exists with security issuers, such as governments and corporations, as well as with counterparties, such as financial institutions and investment dealers with whom we have investment contracts.

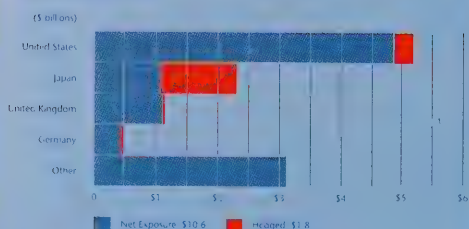
The largest credit exposure, as discussed in note 2(e) to the financial statements, is the Province of Ontario with respect to non-marketable debentures, contributions receivable, and the pre-1990 unfunded liability.

In the case of security issuers, we monitor credit risk on a continuing basis and restrict investment to no more than 2.5 percent of the fund in the debt and equity securities of a single corporation or financial institution.

In the case of swap counterparties, we only deal with those that have high credit ratings. The payment of gains and losses on equity swaps every three to six months substantially reduces the potential impact of a counterparty defaulting on its contractual obligations.

CURRENCY EXPOSURE

as at December 31, 1995



Foreign currency exposure

Only nine percent of our cash investments are outside Canada, although more than 30 percent of total fund returns are derived from foreign sources, principally through the use of derivatives.

When we make investments outside Canada, changes in the relative value of the Canadian dollar can add to, or subtract from, our returns. In 1995, we augmented our foreign investment returns by partially hedging against the Japanese yen and the U.S. dollar. We had \$2.4 billion of foreign currency forward and futures contracts at the 1995 year end. Hedging improved 1995 fund performance by approximately \$250 million.

INVESTMENT PERFORMANCE

The pension fund registered a 16.9 percent rate of return in 1995, compared with 1.7 percent in 1994. This compared with a weighted benchmark return of 17.2 percent for 1995. We underperformed the benchmark largely due to the lower returns produced by fixed-income securities. After removing the effects of inflation, the real rate of return in 1995 was 15.2 percent, compared with 1.5 percent in 1994.

Four-year returns

A longer-term measure has greater relevance, reliability and lower volatility than one-year performance. A common standard within the pension fund industry is to calculate average performance on a four-year cycle.

Over the past four years, the plan's average annual performance of 12.1 percent exceeded the benchmark rate of return by one percent and the rate of inflation by 10.6 percent. Again, this performance compares favourably with our goal of exceeding inflation by 4.5 percent over the long term.

Change in value of investments

Net investments increased to \$39 billion in 1995, compared with \$33.4 billion at the end of 1994. Our financial statements disclose separately the receivables and payables relating to derivative contracts that in previous years were netted under investments.

During 1995, we increased our Canadian and foreign equity portfolios by 19 percent, or \$4.1 billion. This reflected significant increases in our merchant banking and real estate portfolios, although both remain relatively small components of the total fund. In 1995, for the first time, we employed currency hedging techniques, which contributed positively to our returns.

How do we measure investment performance?



Leo de Bever
Vice-President, Research and Economics

John Brennan
Vice-President, Human Resources and
Public Affairs

Andrew Jones
Vice-President, Finance

We measure our investment performance in three different ways.

The performance of each portfolio is measured against benchmarks that simulate the results of the markets in which we invest. These benchmarks are composed of investments that represent broad market averages. To the extent we exceed market averages, we can identify the value our active management has added to that portfolio.

The benchmarks used include the TSE 300 for Canadian equities; the S&P 500 for U.S. equities; the EAFE index for equities in Europe, Australia and the Far East; the Frank Russell Canada Property Index for real estate; and the Scotia McLeod Canada bond index for bonds.

We also measure our total fund return against a composite benchmark produced by aggregating returns from each of the portfolio benchmarks, using our asset mix policy weights.

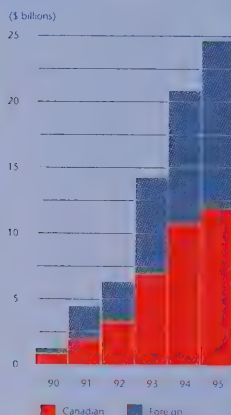
The charts in this Annual Report measure our performance against benchmarks for 1995 and for the past four years.

Finally, total fund performance is compared with our investment objective of exceeding inflation by 4.5 percent. We have to do this on a sustained basis to ensure we meet our liabilities.

Approximately \$8.3 billion of equity exposure is in the form of equity swaps.

GROWTH OF CANADIAN AND FOREIGN EQUITIES

as at December 31



Equity investments

Equities totalled \$25.4 billion, or 65 percent of all investments, at the end of 1995, compared with \$21.4 billion, or 64 percent of all investments, a year earlier. The composition of this asset class is shown on page 15. Approximately \$8.3 billion, or 33 percent, of equity exposure is in the form of equity swaps.

During 1995, our equity portfolio had an 18.1 percent rate of return, adding almost \$500 million of value in excess of relevant market benchmarks.

Canadian index funds:

We have established index funds that mirror the composition of the TSE 35, 100 and 200 indices on the Toronto Stock Exchange. Combined, these indices comprise the TSE 300 index, which contains the shares of Canada's major public corporations. At year end, we had \$9.5 billion invested in these index funds, representing approximately three percent of the outstanding float of the TSE 300 index.

Investing in index funds incurs transaction costs. Consequently, index funds are expected to match the returns of the index less transaction costs. For the past three years our index funds have generated returns in excess of the indices. One way in which we have outperformed the TSE 300 index is by adjusting our weighting between large and small capitalization stocks. The TSE 35 index is composed of the shares of large corporations with good liquidity, while the TSE 200 index consists of smaller companies, many of which have thin public floats.

The size of the fund's equity index portfolios in relation to the Canadian stock market necessitates that we take care in our buy and sell decisions to neither disrupt the market nor signal our intended actions. We accomplish this by using a variety of different trading techniques including block trading for large transactions in particular stocks, and basket trading where we trade a group of different stocks in a single transaction. A significant portion of our trading is done electronically to reduce costs and to avoid signaling our buy or sell decisions before a transaction is completed.

In 1995, the plan's Canadian index funds produced returns of 14.7 percent, or 20 basis points above the TSE 300 benchmark.

Canadian actively managed equities:

We ended 1995 with a \$2.1 billion portfolio of actively managed Canadian stocks, of which the shares in 32 companies constituted 80 percent of the portfolio.

The most important principle behind our actively managed investment approach is that we look for value. We consider ourselves long-term share owners — and are prepared to act as owners in encouraging management to enhance shareholder value (please see sidebar on page 20).

Essentially, we select the shares of individual companies that we consider to be undervalued. This involves a fundamental analysis of each company's past financial performance, operations, industry position, management quality, long-term business

plan, board structure and board independence. This work is done by staff teams of portfolio managers and stock analysts. We invest in companies with both large and small capitalizations, although our emphasis is on large cap firms because of their greater share liquidity. The best investment opportunities often occur when the economy or an industry outlook is negative; conversely, the best sell opportunities are often when optimism is pervasive. Consequently, we tend to be contrarian.

It can take several years for the market to recognize the value of a company's shares, hence the patience of our long-term approach. When gains materialize, we do take profits, although we do not necessarily liquidate our entire position in a company.

Gains in undervalued companies can be realized when they are the target of takeover bids. This happened in 1995, for example, when we were able to tender our shares in Labatt, Malette and DMR Group to investors seeking control of these companies.

The actively managed Canadian equity portfolio produced a 16.3 percent return in 1995, compared with 14.5 percent for the TSE 300 index.

Foreign equities:

Approximately one quarter of the fund's \$12 billion foreign equity exposure is represented by direct investments and three quarters by index investments through the use of derivative contracts.

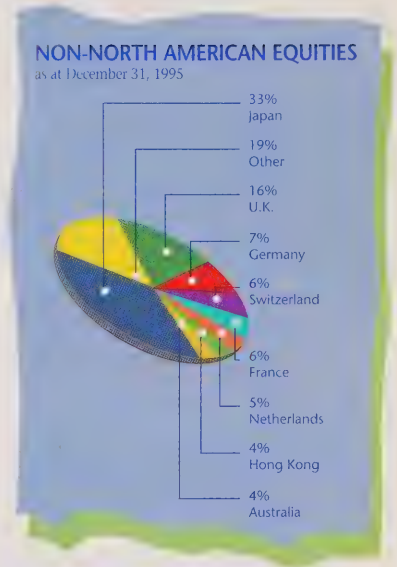
External active fund managers are selected for their ability to implement our conservative value-added approach through bottom-up stock selection, based on their intimate knowledge of selected European and Asian markets. In 1995, we employed six external active fund managers. Our international direct investments are dispersed among more than 18 countries with the largest investments in Japan, the United Kingdom, Germany, the Netherlands and France.

Staff specialists manage the exchange of the fixed income on Ontario debentures into floating rate interest swaps and then into equity swaps in the United States and overseas. At the 1995 year end, we had exchanged \$3.9 billion of debentures for returns on the Standard & Poor's 500 index and \$3.6 billion for returns on the indices of selected Asian and European markets. These investments are now worth \$5 billion and \$3.8 billion respectively.

In view of the strong performance of the U.S. stock market in 1995, we adjusted our S&P 500 swap exposure to take gains later in the year.

Non-North American equity swaps are invested in eight countries, with Japan representing the largest commitment, followed by the United Kingdom and other European stock market indices. Positive returns in most overseas markets in 1995 more than compensated for the decline in the Japanese market in Canadian dollar terms. We locked in some gains in the Japanese market earlier in the year through currency hedging.

In 1995, we earned a return of 21.8 percent on our foreign investments, compared with 18.9 percent for benchmarks used for these investments.



We take care in our buy and sell decisions to neither disrupt the market nor signal our intended actions.



Can we enhance value through corporate share ownership?

David D. Fisher

Vice President, Equities

James E. Morgan

Vice President, Merchant Banking

Robert M. Goyak

Vice President, Real Estate

Teachers' is a shareholder in hundreds of companies throughout the world. We take corporate ownership very seriously. We vote for or against management proxy proposals on the basis of whether or not they are likely to enhance shareholder value, and thus returns to our plan members.

For example, we are opposed to shareholder rights plans. In the event of an unsolicited takeover offer, a company may issue a large number of additional shares to existing shareholders to make the offer prohibitively expensive and thus force its withdrawal. In our view, if a bidder believes it can enhance shareholder value more than incumbent management, then we as owners should have the choice of considering the offer from that bidder.

In 1995, we proposed to the Ontario Securities Commission that shareholder rights plans be prohibited. At the same time, we proposed that the minimum period in which a company can respond to a takeover offer be extended from 21 to 35 days. Subsequent to our submission, the Investment Dealers Association of Canada formed a committee to examine the minimum period for takeover offers.

In 1995, we voted proxies in 317 Canadian public companies. Within these proxies, there were 111 proposals that were not, in our view, in the best interests of shareholders and we voted against them. One of the most common resolutions we opposed dealt with incentive compensation, particularly the granting of share options to executives and directors that appear excessive or that unreasonably dilute shareholder wealth. We generally oppose option plans that allow total dilution to exceed five percent of the outstanding shares, as well as those that allow discounted purchase prices and interest-free loans to management.

Merchant Banking

Our equity investments include a \$6.7 billion merchant banking portfolio. We apply our corporate, financial, and strategic skills to these investments to provide the stock of public companies in the expectation of minimum returns of 20 basis points above the TSX 300 index. We have made about 300 merchant banking investments over the past four years in Canada and internationally (including a \$150 million investment during 1995 in Maple Leaf Foods, where we supported the first harvest of a new executive team and the development of a new business plan).

The merchant banking portfolio is one of Canada's largest active pools assisting growth companies to fulfill their potential. In addition to direct investments, strategic relationships with other merchant banks, brokerage houses, and managed funds in Canada, the United States and Europe enable us to invest on a pooled basis with other institutions.

Merchant banking produced returns of 21.8 percent in 1995, compared with the benchmark return of 16.5 percent.

Real Estate

The \$1.4 billion real estate portfolio represents 3.6 percent of total investments.

Approximately 86 percent of the portfolio is in direct and indirect investments in income-producing properties and 14 percent corporate share ownership. These amounts do not include \$270 million in mortgages as shown in note 20.

This portfolio has the equivalent of 1.8 million square feet of rentable area, consisting of 15 downtown office complexes, 11 regional shopping centres and industrial properties in business parks in Ontario and western Canada. In 1995, we purchased a 15 percent interest in two shopping malls, a kitchen and bank, Ontario, for \$149 million. Approximately 80 percent of our portfolio is in Ontario and 20 percent is in the United States.

The portfolio also has a 20 percent equity interest in Canadian Television, which owns and manages a \$1.1 billion equity portfolio in Canada and the United States. We acquired this position in 1995 for \$200 million, classified in our financial statements as limited equity participation. In Canada, we took 18 million shares of common stock, and the 20 percent interest in Canadian Television was the equivalent of 1.8 million shares of common stock. In 1995, we also purchased a 15 percent

properties, including the Eaton Centre in Toronto and the Pacific Centre in Vancouver.

The real estate portfolio generated cash flow of \$87 million in 1995. The portfolio generated returns of 6.5 percent, compared with 4.1 percent for the benchmark of this portfolio.

Fixed-income investments

Fixed-income securities include the Ontario debentures, bonds and money market investments, as well as hedges in futures and swaps. This asset class totalled \$13.6 billion, or 35 percent of fund investments, at the end of 1995, compared with \$12.1 billion, or 36 percent of total investments, a year earlier.

The largest component of the portfolio is \$8.5 billion of non-marketable Ontario debentures, after the effect of derivatives. The debentures are detailed on page 47. The marketable bond component of the portfolio consists of \$979 million of Government of Canada bonds as well as \$66 million of global bonds.

Portfolio performance:

The fixed-income portfolio produced positive returns in 1995 with a 14.6 percent rate of return. However, we underperformed the composite market benchmark (the Scotia McLeod Canada Index), which returned 19.4 percent. The average return over the past four years was 10.1 percent, compared to 8.7 percent for the benchmark.

In the first half of 1995, we reduced the sensitivity of our bond portfolio to changes in market interest rates, thus lowering the volatility risk of the portfolio. We believed that interest rate levels would rise during the year to cool down higher economic growth in Canada and the United States, as well as higher inflation. In fact, the market did not respond as we had expected and through the year interest rates remained low or declined.

We continued to maintain reduced portfolio risk as the year progressed in anticipation of a falling bond market.

In foreign markets, Japanese institutions also provided substantial liquidity to North American debt markets, which we did not expect. This helped to keep North American interest rates down.

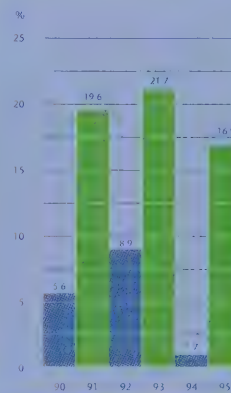
At year end, we continued to maintain reduced interest rate sensitivity in the belief that bond markets have overcompensated for a slowdown in North American economic growth.

Real-rate investments:

As a separate asset class, the fund contains \$967 million of real-rate Canada bonds, with a real rate of return of 4.7 percent, and \$97 million of index-linked mortgages. These investments are completely risk-free with respect to inflation and are guaranteed by the federal government.

We reduced the sensitivity of our bond portfolio to changes in market interest rates.

RATE OF RETURN HISTORY

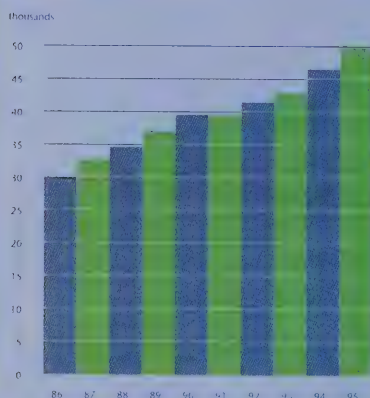


Changes in Net Assets

(\$ Millions)	1995	1994
Income		
Investment income	\$5,656	\$ 528
Contributions	1,305	1,436
	6,961	1,964
Expenditures		
Benefits	1,261	1,130
Operating expenses		
Customer services	27	26
Investments	30	25
	1,318	1,181
Increase in Net Assets	\$5,643	\$ 783

NUMBER OF PENSIONERS

as at December 31

*Money-market securities:*

At the end of 1995, money market securities totalled \$2.9 billion. Approximately half of these securities are Canadian and U.S. treasury bills, with the remainder invested in other short-term money market instruments.

CHANGE IN NET ASSETS

The plan began 1995 with \$34.5 billion in net assets available for benefits. As the accompanying table shows, income from investments and plan contributions totalled \$7.0 billion during the year.

Investment income in 1995 totalled \$5.7 billion, compared with \$528 million the previous year. The improvement reflects positive results in all asset classes, with notable contributions from Canadian and foreign equities.

Contributions from teachers and the government decreased by over \$100 million to \$1.3 billion in 1995 from the previous year, principally because the program ended which allowed teachers to purchase credit for absences from teaching prior to 1990.

Total expenditures, of which 96 percent were pension payments to retired teachers and their survivors, increased by \$137 million to reach \$1.3 billion.

As a result of these changes, net assets available for benefits grew by \$5.6 billion to total \$40.1 billion at the 1995 year end.

Payments to retirees

The plan paid \$1.3 billion in pensions during 1995, an increase from the \$1.1 billion paid out in 1994. The increase principally reflected a higher number of teacher retirements — 3,914, bringing to approximately 50,000 the number of pensioners and their survivors receiving benefits.

The 1995 payments included \$4 million to make up for past deficiencies in pensions discovered under the pension review program discussed on page 6. We estimate that a further \$46 million will be paid out under this program during 1996 and 1997.

These pension payments also reflected a 0.6 percent cost-of-living adjustment for pensioners. The plan requires an averaging method for calculating the inflation adjustment rates for pensions which is different than the year-over-year rate of inflation. The inflation adjustment for pensions for January 1996 was 1.6 percent."

Operating expenses

The costs of managing investments and administering the plan are small relative to the asset base and annual volume of financial transactions, but large in absolute dollars. These costs are discussed in detail in the President's Report on page 6.

CALCULATING THE LIABILITIES

We manage the plan's assets to earn the best possible investment returns to eliminate the plan's current deficiency and build a surplus of assets over liabilities as a cushion against unforeseen events.

Our success in this respect is measured by two valuations — one at the end of each year in preparing our financial statements, the other once every three years in determining the contribution rates for plan members. Both valuations are prepared by an independent actuary and provide an opinion on the plan's financial condition.

Year-end financial condition

The plan's accrued pension liabilities increased from \$36.8 billion to \$38.7 billion during 1995. The actuarial assumptions used to determine these liabilities reflect management's best estimate of expected long-term trends in investment returns, salaries, inflation and demographic factors. The main assumptions are set out in note 5 to the financial statements.

The actuarial value of net assets available to pay liabilities rose from \$34.2 billion to \$38.2 billion during 1995. As a result, the plan had a deficiency of \$514 million, compared with \$2.6 billion a year earlier.

The plan paid \$1.3 billion in pensions during 1995.

The plan's deficiency was about one percent of accrued pension liabilities at the end of 1995, compared with 7 percent a year earlier and 15 percent in 1990. The deficiency has been reduced over the past five years from a peak of \$3.7 billion at the 1991 year end, as shown in the

accompanying table. This reduction reflects changes in assumptions, low inflation and wage increases, and good investment returns. It also reflects the special payments made by the province in 1990, 1991 and 1992.

Funding valuations

In accordance with the *Pension Benefits Act*, the funding valuations use more conservative actuarial assumptions than the annual best estimate valuations. In addition, they take into consideration future benefits, special payments and contributions, while the best estimate valuations reflect only benefits earned and the value of the assets on the date of the valuation.

The initial funding valuation on January 1, 1990 indicated an unfunded liability of \$7.8 billion, primarily because contributions and investment income were insufficient to support promised benefits, particularly after 1976 when pensions were indexed to the Consumer Price Index. During the late 1970s and most of the 1980s, high inflation rates increased the value of benefits at a much faster rate than the increase in the assets.

The plan's deficiency was about one percent of accrued pension liabilities at the end of 1995, compared with 15 percent in 1990.

Change in Deficiency

(\$ Billions)	Actuarial Value of Net Assets	Accrued Pension Liabilities	Deficiency	% Deficiency
1990	\$20.8	\$24.4	\$3.6	14.8
1991	23.8	27.5	3.7	13.5
1992	27.4	30.8	3.4	11.0
1993	30.8	34.0	3.2	9.4
1994	34.2	36.8	2.6	7.1
1995	38.2	38.7	0.5	1.3

Funding Valuation Results (\$ Billions)

January 1	1993
Value of assets at valuation date	\$29.4
Present value of future contributions	14.3
Present value of future special payments from Province	8.4
Total assets	\$2.1
Present value of future benefits	\$0.6
Gain	\$ 1.5

Accrued Pension Benefits

(\$ Billions)	1995	1994
Accrued pension liabilities, beginning of year	\$36.8	\$34.0
Interest on accrued liabilities	3.2	3.0
Benefits earned	1.3	1.3
Benefits paid	(1.2)	(1.1)
	40.1	37.2
Changes in actuarial assumptions	(0.2)	0.2
Experience gains	(1.2)	(0.6)
Accrued pension liabilities end of year	\$38.7	\$36.8

The province has agreed to pay the initial unfunded liability through a series of special payments from 1990 to 2029. To date, it has paid \$895 million. The present value of the remaining special payments is treated as an asset in the funding valuations.

The subsequent funding valuation on January 1, 1993 estimated an actuarial gain of \$1.5 billion due to favourable investment experience as well as revised assumptions about the future, such as lower salary and inflation rates. Under an agreement between the Ontario government and the Ontario Teachers' Federation, the government is taking this gain by eliminating \$1.2 billion of special payments between January 1993 and August 1996 and by reducing contributions to the plan by \$325 million in 1994 and 1995.

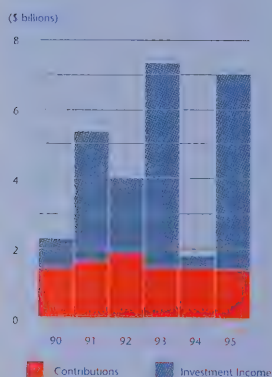
The third funding valuation is being performed, effective January 1, 1996. The results of this valuation are being reviewed by the partners to determine the disposition of any gain that might arise.

The present value of future special payments will rise from \$8.5 billion in 1995 to an estimated peak of \$13.3 billion by 2013 before declining and being eliminated as originally scheduled by 2029. The increase in the present value of the remaining special payments will be less than the expected growth in liabilities and pensioners' payroll over the next 20 years. Even in the peak year of 2013, the present value of special payments will be a lower percentage of total liabilities and pensioners' payroll than is the case today.

Pension plan contributions

The independent actuary determines whether the contribution rates are at an appropriate level to fully fund the benefits promised to members. In determining the appropriate contribution level, economic and non-economic assumptions are considered, such as long-term trends in interest rates, inflation, salary projections and retirement rates.

Ontario teachers currently contribute 7.3 percent of the first \$35,400 of salary and 8.9 percent on remaining salary to the pension plan. These contributions are matched in the aggregate by the provincial government.

INCOME

FUTURE ISSUES AND TRENDS

Canadian federal law requires pension plans to invest at least 80 percent of their assets in Canada. This creates a large exposure to Canadian economic, market and political events. Approximately 90 percent of our assets are physically in Canada. Through the use of derivatives, we have been able to generate more than 30 percent of our returns from investments outside the country. As a result, a substantial portion of our investment income is exposed to international events.

Within Canada, a major challenge for a fund of our size is the illiquidity of Canadian capital markets. The rapid growth in recent years of public and private pension funds has made them major investors competing for the same limited pool of shares in Canadian enterprises. Canadian pension funds would be able to operate more effectively on behalf of their members if foreign investment restrictions were removed as proposed by the Pension Investment Association of Canada and supported by the Ontario Teachers' Pension Plan.

Canadian capital markets will continue to be influenced by the ability of governments to deal with their budget deficits and accumulated debt. Recent fiscal actions by the federal government and most provinces are encouraging in this respect and should foster investor confidence in Canada. At the same time, however, the aftermath of the Quebec referendum casts a shadow over Canada's political future, especially as constitutional discussions are scheduled in 1997. These issues can add volatility to the performance of stock and bond markets.

The pension plan is a large investor in many Canadian corporations and, in some cases, we are among the two or three largest shareholders. We are confident about asserting our ownership rights by stressing corporate governance issues that encourage management to enhance shareholder value and thus our returns. We believe that corporate governance will continue to emerge as an influential force in better aligning the financial interests of managers with those of shareholders.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Ontario Teacher's Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgements. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the financial statements.

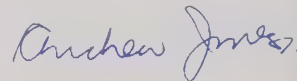
Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the financial statements rests with the Board of Directors. The board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the board.

The plan's external auditors, Deloitte & Touche, have conducted an independent examination of financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.



Claude Lamoureux
President and
Chief Executive Officer
February 14, 1996



Andrew Jones
Vice-President, Finance

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 1995, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board. In addition, we provided the Board with statistical, survey and other information used to develop their long-term economic assumptions.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at December 31, 1994;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- assumptions about future events (for example, future rate of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events; and
- information provided by the Education Relations Commission on negotiated wage settlements in the 1994/95 and 1995/96 school years.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1995 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act*, and the *Pension Benefits Act*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.



Lester J. Wong, F.C.I.A.

February 8, 1996




Malcolm P. Hamilton, F.C.I.A.

We have audited the statement of net assets available for benefits and accrued pension benefits and deficiency of the Ontario Teachers' Pension Plan as at December 31, 1995 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficiency for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Plan as at December 31, 1995 and the changes in its net assets available for benefits, accrued pension benefits and deficiency for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 14, 1996

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY

as at December 31, 1995

(\$ Millions)	1995	1994
NET ASSETS AVAILABLE FOR BENEFITS		
<i>Assets</i>		
Investments (note 2)	\$40,341	\$33,791
Receivable from Province of Ontario (note 4)	1,308	1,338
Receivable from brokers	239	208
Cash	6	34
Fixed assets	3	2
	<u>41,897</u>	<u>35,373</u>
<i>Liabilities</i>		
Accounts payable and accrued liabilities (note 3)	1,760	754
Payable to Province of Ontario (note 7)	—	125
	<u>1,760</u>	<u>879</u>
<i>Net assets available for benefits</i>	40,137	34,494
Actuarial asset value adjustment (note 5)	(1,907)	(252)
	<u>\$38,230</u>	<u>\$34,242</u>
<i>Actuarial value of net assets available for benefits</i>		
	<u>\$38,230</u>	<u>\$34,242</u>
ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits	\$38,744	\$36,848
Deficiency	(514)	(2,606)
	<u>\$38,230</u>	<u>\$34,242</u>
<i>Accrued pension benefits and deficiency</i>		
	<u>\$38,230</u>	<u>\$34,242</u>

On behalf of the Board:



Chairperson



Board Member



STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 1995

(\$ Millions)	1995	1994
<i>Net assets available for benefits, beginning of year</i>	\$34,494	\$33,711
<i>Investment Operations</i>		
Investment income (note 6)	5,656	528
Investment expenses (note 10)	(30)	(25)
Net investment operations	5,626	503
<i>Customer Service Operations</i>		
Contributions (note 8)	1,305	1,436
Benefits (note 9)	(1,261)	(1,130)
Customer service expenses (note 10)	(27)	(26)
Net customer service operations	17	280
<i>Increase in net assets</i>	5,643	783
<i>Net assets available for benefits, end of year</i>	\$40,137	\$34,494

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

for the year ended December 31, 1995

(\$ Millions)	1995	1994
Accrued pension benefits, beginning of year	\$36,848	\$33,998
<i>Increase in accrued pension benefits</i>		
Interest on accrued pension benefits	3,235	3,000
Benefits earned (note 5)	1,347	1,292
Changes in actuarial assumptions (note 5)	—	246
	4,582	4,538
<i>Decrease in accrued pension benefits</i>		
Benefits paid (note 9)	1,261	1,130
Experience gains (note 5)	1,159	558
Changes in actuarial assumptions (note 5)	266	—
	2,686	1,688
<i>Net increase in accrued pension benefits</i>	1,896	2,850
Accrued pension benefits, end of year	\$38,744	\$36,848

STATEMENT OF CHANGES IN DEFICIENCY

for the year ended December 31, 1995

(\$ Millions)	1995	1994
Deficiency, beginning of year	\$(2,606)	\$(3,234)
Increase in net assets available for benefits	5,643	783
Change in actuarial asset value adjustment (note 5)	(1,655)	2,695
Increase in actuarial value of net assets available for benefits	3,988	3,478
Net increase in accrued pension benefits	(1,896)	(2,850)
Deficiency, end of year	\$ (514)	\$(2,606)

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* as amended.

(a) General

The Plan is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The Plan is registered with the Pension Commission of Ontario (registration number 0345785).

(b) Funding

Plan benefits are funded by contributions and investment earnings. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (see note 7).

(c) Retirement pensions

A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced pension is available at age 65 or at any age if the sum of a member's age and qualifying service equals 90.

(d) Disability pensions

A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits

Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of a survivor pension, a lump sum payment or both.

(f) Additional credited service

Members can obtain additional credited service in the Plan for certain absences or transfers from other plans.

(g) Withdrawals from the Plan

Subject to the lock-in provisions, withdrawal refunds, transfers and commuted value transfers are available when a member ceases to be employed in education prior to qualifying for an immediate pension.

(h) Income taxes

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and, consequently, is not subject to income taxes. The Plan's registration number is 0345785.

(i) Escalation of benefits

Pension benefits are adjusted annually for inflation at 100 per cent of the Consumer Price Index, subject to a limit of 8 per cent in any one year with any excess carried forward.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*(a) Basis of presentation*

These financial statements present the financial position and operations of the Plan and are prepared in accordance with generally accepted accounting principles.

Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

*(b) Investments and derivative contracts***Valuation of investments**

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Province of Ontario Debentures (the Debentures), which are not marketable, are stated at estimated fair values calculated by discounting the Debenture cash flows based on year-end market yields of comparable securities. Money market, publicly traded bonds and equity securities are valued at year-end market prices. Other investments for which market quotations are not available such as real estate, mortgages and private placements are valued on a current market yield or appraised basis.

Accrual of income

Interest and dividend income has been accrued to the year-end date.

Derivative contracts

Interest rate, foreign currency and equity futures, forwards, options, swaps, forward rate agreements and debt to equity derivative contracts are recorded at the estimated amounts that the Board would receive or pay to terminate the contracts (marked to market) at the reporting date, with the resulting gain or loss being recognized in unrealized investment income.

Gains or losses on derivative contracts sold or closed out during the year are included in realized investment income.

Unrealized gains and losses

The change in the difference between fair value and the cost (being the purchase price of the asset) of investments at the beginning and end of each year represents the unrealized gain (loss) and is included in investment income.

(c) Accrued pension benefits

Accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by a firm of independent actuaries. The valuation is made as at the start of the year and then extrapolated to year end. It uses the projected benefit method prorated on service and management's best estimate of future economic events (see note 5).

(d) Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The fair value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(e) Contributions and Benefits

Contributions are recorded on the accrual basis except for special payments from the Province which are recorded in the year in which they are received (see note 7).

Benefits are recorded on the accrual basis.

2. INVESTMENTS AND DERIVATIVE CONTRACTS

The investment objectives of the Plan are to minimize the likelihood of an increase in contribution rates and to protect the pension benefits of the Plan members. The strategy employed to achieve these objectives is to invest cash flow from contributions, maturing Debentures and investment returns into a diversified pool of assets such as Canadian and foreign equities, money market securities, government bonds and real estate.

Until January 1, 1990, the Plan had been restricted to investing in non-marketable Debentures which must be held to maturity. The Plan's investment in these Debentures, amounting to \$18.8 billion (1994 - \$16.9 billion), has interest rates and a maturity profile that exposes the Plan to significant fluctuations in fair value. To manage this exposure in a manner consistent with its investment objectives, the Plan has used interest rate, foreign currency and equity futures and forwards, interest rate and equity swaps, options and forward rate agreements (collectively called the derivative contracts) during the year. These derivative contracts allow the Plan to retain the non-marketable Debentures while achieving its objectives of increasing asset diversification and reducing interest rate risk. Through these derivative contracts, the investment returns from the Debentures are exchanged for returns equivalent to those which would be earned by investing directly in money market and equity securities, as described in note 2b).

Starting in 1995, the Plan has taken on positions such as writing or selling options, futures and forwards. The intention of this activity is to enhance investment returns.

a) *Investments before allocating the effect of derivative contracts*

The schedule below summarizes the fair value and the cost of the Plan's investments including accrued interest and dividends of \$383 million (1994 - \$380 million), before giving effect to derivative contracts, as at December 31:

(\$ Millions)	1995		1994	
	Fair Value	Cost	Fair Value	Cost
<i>Fixed income</i>				
Debentures ⁽¹⁾	\$18,831	\$14,869	\$16,894	\$15,125
Money market securities	2,931	2,916	1,818	1,809
Bonds				
Canadian	1,946	1,846	771	780
Foreign	66	66	252	243
Mortgages	97	97	98	98
	23,871	19,794	19,833	18,055
<i>Equities</i>				
Canadian	11,382	9,629	9,331	8,542
Foreign	3,490	2,692	3,098	2,415
	14,872	12,321	12,429	10,957
<i>Real estate</i>	1,195	1,272	915	990
	39,938	33,387	33,177	30,002
<i>Receivables for mark to market on derivative contracts</i>	403	55	614	51
 INVESTMENTS	 40,341	 33,442	 33,791	 30,053
<i>Investment-related liabilities</i>	(1,338)	(472)	(378)	(420)
Net investments (note 2c)	\$39,003	\$32,970	\$33,413	\$29,633

(1) For details concerning the maturities, coupon rates, fair values and cost of these debentures, refer to the Schedule of Province of Ontario Debentures on page 47.

b) Derivative Contracts

Derivatives are financial contracts, the value of which is derived from the value of underlying assets or interest or exchange rates. The Plan utilizes such contracts for asset mix management purposes as well as for managing the fund's exposure to interest rate and foreign currency volatility and for trading purposes.

The notional amounts of derivative contracts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or the credit risk of such transactions. Rather, they serve as the basis upon which the returns from and the fair value of the contracts are determined.

Derivative transactions, which are conducted either in the over-the-counter market directly between two counterparties or on regulated exchange markets, include:

Swap Contracts

Interest rate swaps are contractual obligations in which two counterparties exchange interest rate flows over a period of time based on a notional principal amount. One party typically agrees to pay a fixed interest rate in return for receiving a floating interest rate.

Equity swaps are contractual obligations between two counterparties to exchange cash flows based upon index returns. Typically, one party agrees to pay a floating interest rate in return for receiving a return on a specified equity index.

Interest rate and equity swaps enable the Plan to convert a portion of its interest rate exposure to equity exposures thereby providing returns based on the changes in the relevant equity market indices.

Futures and Forwards

Futures and forwards are contractual obligations either to buy or to sell a specified amount of money market securities, bonds, equity securities or foreign currencies at predetermined future dates and prices.

Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Forwards are customized contracts transacted in the over-the-counter market. As a result of entering into these contracts, returns are generated that are equivalent to the gain or loss that would arise if the securities or foreign currencies had been bought or sold directly at the future price.

These contracts enable the Plan to change its exposure to the effects of changing interest rates on the Debentures, while retaining the Debentures themselves. A portion of the foreign currency exposure arising from the Plan's holdings of non-Canadian securities is hedged by foreign currency futures and forwards.

Option Contracts

Option contracts are agreements in which the right, but not the obligation, is acquired by the option purchaser from the option writer either to buy or sell on or before a specified date, a predetermined amount of a financial instrument at a stated price.

Option contracts permit the Plan, in exchange for money received or paid (the premium), to modify the exposure to changing interest rates or stock prices above or below a predetermined level. A buyer of options is subject to credit risk by relying on the counterparty to perform. A writer of options is subject only to market risk.

The following table summarizes the Plan's derivative contracts held as at December 31:

(\$ Millions)	1995		1994	
	Notional	Fair Value	Notional	Fair Value
<i>Asset Conversion (Fixed Income to Equity)</i>				
Interest rate swaps	\$7,993	\$(1,000)	\$8,043	\$277
Equity swaps	8,283	1,350	7,729	499
		<u>350</u>		<u>776</u>
<i>Interest Rate Management</i>				
Interest rate swaps	2,300	(104)	1,495	(18)
Futures and forwards	903	(11)	18,745	2
Options				
Purchased	1,640	(1)	3,327	—
Written	239	1	1,568	(2)
		<u>(115)</u>		<u>(18)</u>
<i>Foreign Currency Management</i>				
Futures and forwards	2,371	19	36	—
		<u>19</u>		<u>—</u>
<i>Trading</i>				
Options written	67	(1)	—	—
Futures and forwards	19	—	—	—
		<u>(1)</u>		<u>—</u>
		253		758
<i>Less: Net cash collateral received under derivative contracts</i>		<u>918</u>		<u>301</u>
<i>Net fair value of derivative contracts</i>		<u>\$ (665)</u>		<u>\$457</u>

The above derivative contracts mature within one year except for the following:

Weighted Average Maturity (in years)	1995	1994
<i>Asset conversion</i>		
Interest rate swaps	12.5	11.4
Equity swaps	2.5	1.7
<i>Interest rate management</i>		
Interest rate swaps	7.4	8.9

c) *Investments after allocating the effect of derivative contracts*

The Plan's investments at fair value, before and after giving effect to the derivative contracts on the Plan's investments at December 31 are summarized below:

(\$ Millions)	1995		1994	
	At Fair Value (per Note 2a)	Effective Net Investment At Fair Value	At Fair Value (per Note 2a)	Effective Net Investment At Fair Value
Fixed income	\$23,871	\$13,573	\$19,833	\$12,062
Equities				
Canadian	11,382	12,218	9,331	9,943
Foreign	3,490	12,287	3,098	10,714
	14,872	24,505	12,429	20,657
Real estate	1,195	1,195	915	915
Real estate indebtedness	(270)	(270)	(221)	(221)
Net fair value of derivative contracts	(665)	—	457	—
	\$39,003	\$39,003	\$33,413	\$33,413

d) *Interest Rate Risk*

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation.

The Plan's primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates required to meet pension obligations. As at December 31, 1995, holding the inflation and salary escalation assumptions constant, a 1% change in the assumed real long-term rates of return would result in a change in the pension liabilities of approximately 14%.

To match these liabilities the Plan has established a policy asset mix of approximately two-thirds equities and one-third fixed income securities. The returns on fixed income securities are sensitive to changes in nominal interest rates while long-term equity returns have historically shown high correlation with changes in inflation and salary escalation.

After giving effect to the derivative contracts discussed in note 2b), a 1% increase in nominal interest rates would result in a decline in the value of the fixed income securities of 3.9%.

e) *Credit Risk*

Credit risk arises from the potential for an investee to fail or for a counterparty to default on its contractual obligations to the Plan.

At December 31, 1995, the Plan's most significant concentration of credit risk was with the Province of Ontario. This concentration relates primarily to the holding of \$18.8 billion of Ontario Debentures, a receivable of \$1.3 billion and future funding requirements of the Plan.

The Plan also had a concentration of credit risk with a number of Canadian and foreign financial institutions. Each of these counterparties is rated AA or above by Dominion Bond Rating Services or equivalent credit rating agencies. As at December 31, 1995, the Plan's total credit exposure (before giving effect to cash collateral and netting arrangements), including derivative contracts, money market and equity investments, to Canadian financial institutions was \$2.1 billion and \$.97 billion to foreign financial institutions. Exposure to any single Canadian financial institution does not exceed \$1 billion.

The Plan records all investment and derivative contracts at fair value. Consequently, investment values reflected on the Statement of Net Assets Available for Benefits represents the maximum credit risk exposure of the Plan.

The Plan limits the credit risk by dealing with counterparties that are considered to be high quality credits, utilizing an internal credit limit monitoring process, as well as through the use of credit mitigation techniques such as master netting arrangements and obtaining collateral where appropriate.

f) *Foreign Currency Risk*

Foreign currency exposure arises from the Plan's holdings of non-Canadian equities, foreign currency-denominated equity swaps, foreign bonds and money market securities.

The Plan may, from time to time, hedge some of this exposure based on interest rate spreads between various countries or other economic fundamentals. As at December 31, the Plan's net foreign currency exposure after giving effect to the net related hedge was as follows:

(\$ Millions)	1995		1994	
Country	Gross Exposure	Net Foreign Currency Hedge	Net Exposure	Net Exposure
United States	\$ 5,212	\$ 524	\$ 4,688	\$ 4,928
Japan	2,329	1,212	1,117	2,103
United Kingdom	1,135	3	1,132	987
Germany	483	19	464	347
Other	3,195	—	3,195	2,612
	<u>\$12,354</u>	<u>\$1,758</u>	<u>\$10,596</u>	<u>\$10,977</u>

3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of \$1,760 million (1994 - \$754 million) consist primarily of investment-related liabilities and due to brokers.

4. RECEIVABLE FROM PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

(\$ Millions)	1995	1994
Contributions receivable	\$1,229	\$1,248
Accrued interest	79	90
	<u>\$1,308</u>	<u>\$1,338</u>

The receivable from the Province is comprised of amounts to be received as follows: \$687 million in 1996 and \$621 million in 1997.

5. ACCRUED PENSION BENEFITS

a) The actuarial assumptions used in determining accrued pension benefits reflect management's best estimate of expected long-term economic trends as follows:

	1995	1994
Asset rate of return	8.75%	8.75%
Salary escalation rate	5.00%	5.00%
Inflation rate	4.00%	4.00%

Benefits earned in 1995 include \$150 million to provide for the increase in pensions determined as a result of a review of all pensions currently in pay.

Changes in actuarial assumptions in 1995 comprised principally of the modification of the salary growth provision expected to follow the Social Contract and increased retirement rates resulting in a net decrease in accrued pension benefits of \$226 million. In 1994, changes to actuarial assumptions, principally because of decreasing mortality rates, increased accrued pension benefits by \$246 million.

Experience gains of \$1,159 million (1994 - \$558 million) arose from differences between the actuarial assumptions and actual results and relate primarily to favourable experience for salary and inflation.

b) The actuarial value of net assets available for benefits is determined by reference to long-term market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the fund amortized over five years. Using this adjustment, market value remains the underlying basis for asset valuation, but fluctuations are averaged over a five year period.

The year over year change in the actuarial asset value adjustment is reflected in the Statement of Changes in Deficiency.

6. INVESTMENT INCOME

a) *Investment income before allocating the effect of derivative contracts*

Investment income, before giving effect to derivative contracts and before allocating the realized and unrealized net gains (losses), for the year ended December 31, is as follows:

(\$ Millions)	1995	1994
<i>Interest income</i>		
Debentures (net of interest incurred on swap contracts)	\$ 917	\$1,116
Money market securities	163	89
Bonds		
Canadian	83	41
Foreign	4	16
Mortgages	5	6
	<u>1,172</u>	<u>1,268</u>
<i>Dividend income</i>		
Canadian equities	276	229
Foreign equities	132	133
	<u>408</u>	<u>362</u>
<i>Real estate</i>		
(net of interest expense \$31 million; 1994 - \$21 million)	56	49
	<u>1,636</u>	<u>1,679</u>
<i>Net gain(loss) on investments⁽¹⁾</i>	<u>4,020</u>	<u>(1,151)</u>
	<u>\$5,656</u>	<u>\$ 528</u>

(1) Includes net unrealized gains of \$2,674 million (1994 - net unrealized losses of \$2,338 million).

b) *Investment income after allocating the effect of derivative contracts*

Investment income by asset class, after giving effect to the derivative contracts and allocating the realized and unrealized net gains (losses), for the year ended December 31, is as follows:

	1995		1994	
	\$ Millions	Rate of Return %	\$ Millions	Rate of Return %
Fixed income	\$1,741	14.6	\$(593)	(3.1)
Canadian equities	1,544	15.3	189	2.8
Foreign equities	2,317	21.8	898	10.9
Real estate	54	6.5	34	5.4
Overall	<u>\$5,656</u>	<u>16.9</u>	<u>\$ 528</u>	<u>1.7</u>

7. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding requirements of the Plan. Active members are currently required to contribute 7.3 per cent of the portion of their salaries covered by the Canada Pension Plan and 8.9 per cent of salaries above this level. Aggregate member contributions are matched by the Province and other employers.

The actuarial assumptions and methods used to determine statutory pension liabilities are different than those used to calculate the amounts disclosed in these financial statements. The statutory valuations use a conservative approach and also take into account benefits earned and contributions made after the valuation date.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990 disclosed an unfunded liability of \$7.8 billion which is the amount by which the Plan's liabilities exceeded the assets. This liability is the responsibility of the Province and is being paid off with interest by a series of special payments over the 40-year period which began January 1, 1990. Subsequent statutory valuations treat the present value of the remaining special payments as an asset. As at December 31, 1995, the present value of these special payments amounted to \$8.5 billion.

The last statutory valuation as at January 1, 1993, reflecting lower salary increases and inflation, disclosed an actuarial gain of \$1.5 billion over the three years since the initial valuation. Pursuant to the *Teachers' Pension Act* and by agreement with the Ontario Teachers' Federation, the Province exercised its right to apply the gain to eliminate special payments of \$1.2 billion between January 1, 1993 and August 1996; and to apply \$325 million to reduce other scheduled payments from the Province to the Plan in 1994 and 1995.

The results of the statutory valuation as at January 1, 1996 will not be available until later in the year.

8. CONTRIBUTIONS

(\$ Millions)	1995	1994
<i>Members</i>		
Current service	\$ 609	\$ 614
Optional credit	6	60
Repayments of refunds	2	36
	617	710
<i>Province of Ontario</i>		
Current service	602	606
Optional credit	—	23
Interest	58	66
	660	695
Other employers	9	9
Transfers from other pension plans	19	22
	\$1,305	\$1,436

9. BENEFITS

(\$ Millions)	1995	1994
Retirement pensions	\$1,115	\$ 995
Disability pensions	26	25
Death benefits	69	65
Refunds	15	14
Transfers to other plans	36	31
	\$1,261	\$1,130

10. ADMINISTRATIVE EXPENSES

(a) *Investment Expenses*

(\$ Millions)	1995	1994
Salaries and benefits	\$11.1	\$10.4
Investment management fees	7.8	6.7
Custodial and banking fees	3.4	2.9
Premises and equipment	3.1	1.6
Professional consulting services	2.5	1.7
Communication and travel	.8	.6
Statutory audit fees	.3	.2
All other	1.3	.8
	<u>\$30.3</u>	<u>\$24.9</u>

(b) *Customer Service Expenses*

(\$ Millions)	1995	1994
Salaries and benefits	\$14.7	\$13.3
Premises and equipment	5.9	7.5
Professional consulting services	3.4	2.6
Communication and travel	1.7	1.5
Board and committee remuneration	.1	.1
Statutory audit fees	.2	.2
All other	.6	.6
	<u>\$26.6</u>	<u>\$25.8</u>

(c) *Management Compensation*

The compensation table represents full disclosure of base salary, annual bonus, long-term incentives and other compensation earned in 1993, 1994 and 1995 by the Chief Executive Officer and the four other most highly compensated executive officers.

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary</i>	<i>Annual Incentive Bonus</i>	<i>Long-Term Incentive Bonus (1)</i>	<i>Group Term Life Insurance</i>	<i>Other Compensation</i>
Claude Lamoureux President & CEO	1995	\$ 296,656	\$ 119,400	\$ 476,000	\$ 842	\$ 34,600 ⁽²⁾
	1994	286,606	130,300	—	813	34,600 ⁽²⁾
	1993	276,534	127,900	—	751	34,600 ⁽²⁾
Robert Bertram Senior V.P. Investments	1995	255,928	66,000	428,400	726	33,000 ⁽³⁾
	1994	249,363	80,400	—	707	33,000 ⁽³⁾
	1993	243,354	66,400	—	657	33,000 ⁽³⁾
George Engman V.P. Merchant Banking Group	1995	147,823	184,500	148,750	427	9,375 ⁽⁴⁾
	1994	144,423	188,900	—	418	12,500 ⁽⁴⁾
	1993	141,850	97,600	—	390	12,500 ⁽⁴⁾
Heather Hunter V.P. Equities	1995	159,606	85,800	166,600	461	N/A
	1994	157,026	79,100	—	453	N/A
	1993	154,537	67,400	—	425	N/A
Brian Muzyk V.P. Real Estate	1995	149,379	113,300	148,750	424	N/A
	1994	145,038	119,900	—	411	N/A
	1993	141,441	69,100	—	382	N/A

(1) A long-term incentive program was established for the Chief Executive Officer and for executive employees by the Board of Directors in consultation with external compensation consultants beginning in January 1992. Payouts under this plan are approved by the compensation committee of the Board of Directors. At present the compensation committee is composed of the full Board of Directors. The plan is designed to ensure the organization's competitiveness to attract and retain senior professionals. The long-term incentive plan measures the amount total fund performance exceeds a composite benchmark over a four-year period. The benchmark is established from market indices for investment portfolio performance using the fund's annual asset-mix target weights.

1996 is the first year that payouts have been made under this plan. The initial payouts represent incentive bonuses earned for the period January 1, 1992 through December 31, 1995. In subsequent years, payouts will be made annually for four-year overlapping performance cycles, if the fund's four-year performance continues to exceed the composite benchmark.

Target payouts for the long-term incentive plan were initially established at 30 percent of base salary for investment vice-presidents and 45 percent of base salary for the Senior Vice-President and the Chief Executive Officer. To achieve these payout levels, total fund performance has to exceed the benchmark by an average of 50 basis points annually. For the performance period ended December 31, 1995, the pension fund registered an annualized four-year rate of return of 12.1%. This compares to the four-year cost-adjusted benchmark return of 11.2%.

The number of units were doubled for the initial performance cycle in recognition of the time delay required to develop a long-term incentive plan and the subsequent vesting period before the initial payment was made under the plan.

(2) Mortgage assistance for relocation of \$25,000 per annum. Relocation assistance ceased in September 1995. Automobile allowance of \$9,600 per annum.

(3) Mortgage assistance for relocation of \$25,000 per annum. Automobile allowance of \$8,000 per annum.

(4) Allowance to compensate for forfeited external directorship. This allowance ceased in July 1995.

INVESTMENTS GREATER THAN \$20 MILLION

as at December 31, 1995

FIXED INCOME

(\$ Millions)

Type	Maturity Date	Coupon (%)	Fair Value	Cost
Canadian Treasury bills	1996	5.5-9.0	\$1,377	\$1,366
Term deposits	1996	5.4-7.5	1,277	1,274
Government of Canada bonds	1997-2025	5.9-10.5	979	960
Real return Canada bonds	2021-2026	4.3	967	886
Call loans	1996	5.8	215	215
Index-linked mortgages	2021-2023	5.4-8.4	97	97
International bonds	2005-2007	6.5-10.0	66	66
Commercial paper	1996	5.8-6.0	36	36
US Treasury bills	1996	5.3-5.9	27	27

Province of Ontario Debentures

(\$ Millions)

Maturity Date	Coupon (%)	Fair Value	Cost
1996-1999	7.00-7.99	\$ 123	\$ 120
	8.00-8.99	437	418
	9.00-9.99	949	867
	10.00-10.99	14	15
	12.00-12.99	142	121
	14.00-14.99	125	107
	16.00-16.99	187	165
		1,977	1,813
2000-2004	8.00-8.99	43	40
	9.00-9.99	912	805
	10.00-10.99	582	502
	11.00-11.99	842	717
	12.00-12.99	1,057	786
	13.00-13.99	1,122	837
		4,558	3,687
2005-2009	10.00-10.99	2,481	1,993
	11.00-11.99	3,253	2,505
	12.00-12.99	1,142	840
	13.00-13.99	106	75
	14.00-14.99	494	335
	15.00-15.99	1,528	945
		9,004	6,693
2010-2012	10.00-10.99	1,376	1,113
	11.00-11.99	1,448	1,095
		2,824	2,208
Accrued Interest		468	468
		\$18,831	\$14,869

INVESTMENTS GREATER THAN \$20 MILLION

as at December 31, 1995

CORPORATE SHARES (Millions)

<i>Issuer (all classes)</i>	<i>Shares</i>	<i>Fair Value</i>	<i>Issuer (all classes)</i>	<i>Shares</i>	<i>Fair Value</i>
BCE Inc.	10.3	\$486.9	Fletcher Challenge Canada Limited	2.6	\$55.7
Canadian Imperial Bank of Commerce	8.9	360.1	Power Financial Corporation	1.6	54.8
Barrick Gold Corporation	9.8	354.8	IPL Energy Inc.	1.5	48.1
Seagram Company Ltd., The	6.9	325.7	Cameco Corporation	.9	46.8
Royal Bank of Canada	10.5	325.7	Canadian Tire Corporation, Limited	3.1	46.2
Toronto-Dominion Bank, The	12.5	300.8	Bayer AG	.1	46.0
Placer Dome Inc.	8.5	280.2	Hitachi Ltd.	3.3	45.7
Alcan Aluminum Limited	6.3	268.2	Echo Bay Mines Ltd.	3.2	45.2
Canadian Pacific Limited	9.4	234.3	Dofasco Inc.	2.6	45.1
Maple Leaf Foods Inc.	37.9	232.0	Telefonica de Espana.	2.1	44.9
Northern Telecom Limited	3.9	229.0	Jardine Strategic Holdings Ltd.	10.5	43.7
Bank of Montreal	7.2	223.0	Diamond Fields Resources Inc.	1.7	42.7
Bank of Nova Scotia, The	6.2	183.3	Horsham Corporation, The	2.3	42.0
Nova Corporation	16.1	177.5	Abitibi-Price Inc.	2.1	41.4
Inco Limited	3.4	154.5	Hutchison Whampoa Limited	5.0	41.1
TransCanada PipeLines Limited	8.1	153.2	Torstar Corporation	1.8	41.0
Thomson Corporation, The	7.6	144.4	Avenor Inc.	1.7	40.2
Imasco Limited	5.4	143.7	Cominco Ltd.	1.4	38.9
Renaissance Energy Ltd.	4.0	138.1	Semi-Tech Corporation	4.1	38.8
Bombardier Inc.	7.3	131.8	Agrium Inc.	1.9	38.7
Talisman Energy Inc.	4.3	117.9	ABN Amro Holdings	.6	38.6
Noranda Inc.	4.0	111.8	TVX Gold Inc.	3.9	37.8
Potash Corporation of Saskatchewan Inc.	1.1	109.9	Canadian Natural Resources Limited	1.9	37.5
Laidlaw Inc.	7.6	104.2	ATS Automation Tooling Systems Inc.	1.7	36.8
MacMillan Bloedel Limited	6.0	101.3	BC TELECOM Inc.	1.5	36.3
Telus Corporation	6.3	100.6	Hong Kong Telecommunications Ltd.	14.8	36.1
Rogers Communications Inc.	6.4	98.0	Ault Foods Limited	2.4	35.9
Westcoast Energy Inc.	4.7	94.2	Singapore Airlines Ltd.	2.8	35.2
Magna International Inc.	1.5	87.0	Co-Steel Inc.	1.4	34.3
Anderson Exploration Ltd.	6.0	83.8	Loewen Group Inc., The	1.0	33.7
Imperial Oil Limited	1.7	83.1	Elf Aquitaine	.3	33.6
Newbridge Networks Corporation	1.5	82.2	Dominion Textile Inc.	5.0	33.5
TransAlta Corporation	5.5	80.4	Cara Operations Limited	8.2	33.2
Power Corporation of Canada	3.8	79.2	Northstar Energy Corporation	2.4	33.2
Alberta Energy Company Ltd.	3.5	76.8	Rio Algom Limited	1.3	32.4
Moore Corporation Limited	3.0	76.0	Sherritt Inc.	1.8	32.3
IPSCO Inc.	2.6	75.3	Banco Popular Espanol SA	.1	32.2
Molson Companies Limited, The	3.3	75.2	Cheung Kong (Holding) Ltd.	3.8	31.7
Teck Corporation	2.7	73.6	Iberdrola S.A.	2.5	31.0
National Bank of Canada	6.6	73.0	Kinross Gold Corporation	2.9	30.8
Québecor Inc.	3.4	69.4	Methanex Corporation	3.0	30.1
United Dominion Industries Limited	2.3	69.4	Ranger Oil Limited	3.5	30.1
Inmet Mining Corporation	6.9	69.0	Teleglobe Inc.	1.6	30.1
Canadian Occidental Petroleum Ltd.	1.5	68.9	Loblaw Companies Limited	1.0	29.4
Falconbridge Limited	2.3	67.3	Euro-Nevada Mining Corporation	.6	29.0
Gulf Canada Resources Limited	12.3	64.4	Limited		
Petro-Canada	5.0	64.4	Broken Hill Proprietary Company	1.5	28.4
BioChem Pharma Inc.	1.0	57.5	Canon Inc.	1.1	28.3
TSE 100 Participation Units	2.0	57.4			
Suncor Inc.	1.3	57.2			

CORPORATE SHARES (Millions)

<i>Issuer (all classes)</i>	<i>Shares</i>	<i>Fair Value</i>	<i>Issuer (all classes)</i>	<i>Shares</i>	<i>Fair Value</i>
HSBC Group	1.4	\$28.1	Sandoz AG	.02	\$23.7
CAE Inc.	2.7	27.8	Oshawa Group Limited, The	1.0	23.0
Donohue Inc.	1.7	27.5	Veba AG	.4	22.8
Stone-Consolidated Corporation	1.6	27.4	Ciba - Geigy AG	.02	22.6
BCE Mobile Communications Inc.	.6	27.1	Matsushita Group	1.0	22.5
Franco-Nevada Mining Corporation Limited	.3	27.1	Zurich Versicherungsgesellschaft	.1	22.5
Trimac Limited	2.2	26.8	Empresa Nacional de Electricidad SA	.3	22.4
Scott's Hospitality Inc.	3.4	26.3	Sony Corporation	.3	22.3
Southam Inc.	1.8	26.2	Canadian Utilities Limited	.9	22.0
International Forest Products Limited	2.4	26.0	Hanson plc	5.4	22.0
Nova Scotia Power Inc.	2.1	26.0	Fuji Photo Film	.6	22.0
Shell Canada Limited	.6	25.8	Québecor Printing Inc.	1.0	21.8
Barclays PLC	1.6	25.7	Extendicare Inc.	1.4	21.7
Wascana Energy Inc.	2.0	25.3	Acklands Limited	1.9	21.6
Generale de Banque SA	.1	25.2	Westpac Banking Corporation Ltd.	3.5	21.6
George Weston Limited	.5	25.1	Mitsubishi Industrial Group.	2.0	21.2
Brascan Limited	1.0	25.1	Poco Petroleum Ltd.	2.1	21.2
International Nederlanden Groep NV	.3	24.7	Mackenzie Financial Corporation	1.6	20.6
Royal PTT Nederland NV	.5	24.7	Tomkins plc	3.4	20.3
Chauvco Resources Ltd.	2.0	24.5	Malaysia International Shipping Corp	5.7	20.2
Hudson's Bay Company	1.2	24.3	Alcatel Alsthom	.2	20.0
Carter Holt Harvey Limited	8.2	24.2	Kamigumi Company LTD.	1.5	20.0
National Australia Bank Ltd.	2.0	24.2			
Mitel Corporation	2.7	24.1			
PanCanadian Petroleum Limited	.5	24.0			

CONVERTIBLE DEBENTURES

<i>(\$ Millions)</i>	<i>Par Value</i>	<i>Fair Value</i>
Power Financial Corporation 8.0% Due Apr. 30, 2014	\$85.5	\$104.9
Telecom Telesystem LTD. 5.44% Due Nov. 18, 2002	21.3	31.1

INVESTMENTS GREATER THAN \$20 MILLION

as at December 31, 1995

REAL ESTATE PORTFOLIO

	Ownership
<i>Regional Shopping Centres</i>	
Bayshore Shopping Centre, Ottawa	33.8%
Fairview Park Mall, Kitchener	75.0%
Georgian Mall, Barrie	75.0%
Hillcrest Mall, Richmond Hill	100.0%
Intercity Shopping Centre, Thunder Bay	50.0%
Markville Shopping Centre, Markham	50.0%
New Sudbury Shopping Centre, Sudbury	50.0%
Polo Park Mall, Winnipeg	100.0%
Southland Mall, Regina	100.0%
Chinook Centre, Calgary	50.0%
Richmond Centre, Vancouver	100.0%
<i>Office and Other Properties</i>	
1 Queen Street East and 20 Richmond Street East, Toronto	50.0%
Granville Square, Vancouver	50.0%
The Station, Vancouver	50.0%
Waterfront Centre, Vancouver	50.0%
Industrial Properties, Calgary	100.0%
Granville Square II, Vancouver	50.0%
Toronto-Dominion Centre, Toronto - Participating loan	37.5%

PRIVATE COMPANIES AND PARTNERSHIPS

Gruppo Buffetti S.P.A.
 Commcorp Financial Services Inc.
 DLJ Merchant Banking Partners, L.P.
 McCain Capital Corporation
 MLG Ventures Limited
 Nutreco Holding NV
 Providence Media Partners, L.P.
 Trinity Partnership

SIX-YEAR REVIEW

for the year ended December 31

(\$ Millions)	1995	1994	1993	1992	1991	1990
CHANGES IN NET ASSETS						
<i>Income</i>						
Investment Income	5,656	528	5,907	2,145	3,843	1,031
Contributions						
Members	615	674	647	655	597	526
Province of Ontario/employers	669	704	712	740	663	587
– special payments	—	—	—	438	270	187
Repayment of refunds and transfers	21	58	42	56	54	33
Total Income	6,961	1,964	7,308	4,034	5,427	2,364
<i>Expenditures</i>						
Benefits Paid	1,261	1,130	1001	921	829	760
Administrative Expenses	57	51	44	37	25	20
Distribution of gain	—	—	325	—	—	—
Total Expenditures	1,318	1,181	1,370	958	854	780
INCREASE IN NET ASSETS	5,643	783	5,938	3,076	4,573	1,584
NET ASSETS						
Investments						
Fixed Income	13,573	12,062*	18,117	19,464	19,215	18,129
Equities – Canadian	12,218	9,943	7,510	3,217	2,618	520
– Foreign	12,287	10,714	7,035	3,253	1,796	807
– Real Estate –	925	694	608	451	180	—
	39,003	33,413	33,270	26,385	23,809	19,456
Receivable from Province of Ontario	1,308	1,338	1,362	1,323	1,190	945
Other assets	1,586	622*	36	72	10	—
Total Assets	41,897	35,373	34,668	27,780	25,009	20,401
Liabilities	(1,760)	(879)*	(957)	(7)	(312)	(277)
Net Assets	40,137	34,494	33,711	27,773	24,697	20,124
Actuarial smoothing	(1,907)	(252)	(2,947)	(414)	(883)	709
Actuarial value of net assets	38,230	34,242	30,764	27,359	23,814	20,833
Accrued pension benefits	38,744	36,848	33,998	30,781	27,479	24,391
DEFICIENCY	514	2,606	3,234	3,422	3,665	3,558
PERFORMANCE (%)						
Rate of return	16.9	1.7	21.7	8.9	19.6	5.6
After inflation	15.2	1.5	20.0	6.8	15.8	0.6
Benchmark	17.2	(0.3)	20.5	8.0	15.4	—
After inflation	15.5	(0.5)	18.8	5.9	11.6	—

* reclassified

BOARD OF DIRECTORS AND CORPORATE DIRECTORY

Board of Directors

C. Edward Medland, Chairperson
Jalynn Bennett
Gail Cook-Bennett
Geoffrey Clarkson
Martin R. Hicks
Robert W. Korthals
David Lennox
Doug McAndless
Lynne Sullivan

Investment Committee

Robert W. Korthals, Chairperson
Jalynn Bennett
Gail Cook-Bennett
Martin R. Hicks
David Lennox
Doug McAndless
C. Edward Medland
Gary Porter
Lynne Sullivan

Audit and Actuarial Committee

Doug McAndless, Chairperson
Jalynn Bennett
Gail Cook-Bennett
Martin R. Hicks
Lynne Sullivan

Benefits Adjudication Committee (Appeals)

David Lennox, Chairperson
Bob Blackwood
Ron Edwards
Sherry Corden Fairweather
Wendy Gauthier
Sherron Hibbitt
Shannon Hogan
Kim McCulloch
David Paton
Roger Régimbal
George Saranchuk
Elizabeth Stein

Corporate Directory

President and Chief Executive Officer:
Claude Lamoureux

Investments:
Senior Vice-President, Robert Bertram

Fixed Income:
Vice-President, Patricia Murphy

Equities:
Vice-President, Heather Hunter

Merchant Banking:
Vice-President, George Engman

Real Estate:
Vice-President, Brian Muzyk

Core Domestic:
Vice-President, Morgan McCague

Core International:
Vice-President, Neil Petroff

Research and Economics:
Vice-President, Leo de Bever

Customer and Information Services:
Vice-President, Al Reesor

Data Resources and Administrative Services:
Vice-President, Carole Piper-Peel

Human Resources and Public Affairs:
Vice-President, John Brennan

Finance:
Vice-President, Andrew Jones

Law:
General Counsel, Roger Barton

Internal Audit and Taxation:
Vice-President, John Dickson

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager at 416-730-5347.

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